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Finanční analýza vybrané společnosti
Financial Analysis of Selected Company

Student: Jialei Xiong
Supervisor of bachelor thesis: doc. Ing. Aleš Kresta, Ph.d.

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3. Characteristics of Selected Company
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5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilisation of Results from the Bachelor Thesis
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References:

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Ing. Iveta Ratmanová, Ph.D.
Head of Department

doc. Ing. Lenka Kauerová, CSc.
Vice Dean for Study Affairs
delegated to the negotiation r.no.
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Ostrava dated 08.05.2020

Jialei Xiong 熊佳蕾

Student's name and surname

Contents

1. Introduction

Financial analysis is the process of analyzing and evaluating the financial status, operating results and cash flow status of an enterprise based on financial statements. Its purpose is to understand the profitability, operating capacity, solvency and liquidity of the enterprise, evaluate past operating performance, measure the current financial situation, and predict future development trends. Through financial analysis, investors can further understand the predicted return level and degree of risk after investment to make correct investment decisions.

The goal of the thesis is to apply selected financial analysis methods in order to evaluate the financial position of the Walt Disney company between 2015 and 2019.

The thesis is divided into five chapters. Chapter 1 is a general introduction of the thesis, which explains the purpose of the thesis and explains the main structure of the thesis.

Chapter 2 is mainly the financial statement and the financial analysis theory part. There are three main types of financial statements: balance sheet, income statement and cash flow statement. Moreover, financial analysis is based on the data in financial statements. There are three methods for financial analysis of a company. The first is common size analysis, which is also divided into horizontal analysis and vertical analysis. The second is financial ratio analysis, which analyzes a company's profitability, liquidity, solvency and operational capacity. And, finally, there is pyramid decomposition analysis.

The chapter 3 is to analyze the financial characteristics of the Walt Disney company. It firstly summarizes the basic information of the Walt Disney company and then introduces its successful experience.

Chapter 4 is an extension of chapter 2. According to the annual reports of Walt Disney from 2015 to 2019, we use the methods of common-size analysis, financial ratio analysis and pyramid analysis to analyze the financial status of the Walt Disney company.

Chapter 5 is the conclusion. We summarize the results of the financial analysis of the Walt Disney company and summarize the main work of the thesis.

2. Description of the Financial Analysis

In this chapter, we introduce the basic theory of financial statements. And on the basis of financial statements, financial analysis methods are introduced in sequence. The three main methods are the common-size analysis, the financial ratio analysis and pyramid decomposition. This chapter is the basis for the further analysis of the selected companies.

2.1 The introduction of financial analysis

Financial analysis is the process of reviewing and analyzing the company's historical data to obtain information about the company's current and future financial conditions, and assessing the company's performance in order to make better economic decisions. Simply put, we perform financial analysis to determine if a company is a good investment. The stability, solvency, liquidity or profitability of the company all affect whether it is worth investing in.

Financial analysis is a tool applied by investors and senior management. Due to financial analysis is based on the financial statements, so the first thing we need to pay attention to be analyzed all kinds of financial statements of the company.

2.2 Financial statement

"A firm's accounting system records the results of transactions, events, and commercial arrangements and generates the financial statements, but the financial statements do not stand alone. To provide more relevant and reliable information for financial statement users, firms typically provide a substantial amount of important additional information with the financial statements." (Wahlen et al, 2010, p.36)

Financial statements are written record of the financial condition of an enterprise, which is applied to reflect the financial performance and financial condition of the enterprise at a certain time. Financial statements are prepared by the management of the company and reflect the financial impact of business transactions and events on the entity. Financial statements are the main source of financial information for most decision makers, so financial accounting and reporting attach great importance to the accuracy, reliability and relevance of these financial

statement information.

They include standard reports such as balance statement, income statement and cash flow statement that quantify a company's financial strength, performance and liquidity. It also provides more information about the company's financial condition to users outside the company, such as investors and creditors.

2.2.1 Balance statement

"The balance sheet, or statement of financial position, presents a snapshot of the resources of a firm (assets) and the claims on those resources (liabilities and shareholders' equity) as of a specific date." (Wahlen et al, 2010, p.19)

The balance sheet reflects the statement of the financial position of the enterprise at a certain date, that is, how many assets and obligations the enterprise has undertaken at a certain point in time. It is the static performance of the business activities of the enterprise. A balance sheet is prepared to provide the appropriate financial position of a company to stakeholders such as owners and lenders at any time. In order to report amounts, it is necessary to keep financial records to provide balances for specific periods of time. In financial statements, the balance sheet is the core, the other several statements are the interpretation and explanation of a certain item of the balance sheet. Thus, the balance sheet is a general description of the overall health of a business, from which you can see how good it is.

The formula for the balance sheet is as follows,

$$Assets = Liabilities + Owners' \ Equity. \qquad (2.1)$$

In general, the balance sheet can be divided into two parts. Usually listed on the left side of the table in the order of change of various assets, it reflects all the property, materials, claims and rights of the unit. On the right side are liabilities and equity. Liabilities are usually listed in the upper right corner as current liabilities and non-current liabilities, reflecting the current obligations of a business that are expected to result in the outflow of economic benefits at a particular date. Owner's equity is listed in the lower right corner, reflecting the total amount of net assets owned by the company's shareholders (investors) at a particular date.

Table 2.1 Structure of the balance sheet

BALANCE SHEET	
Item	Item
TOTAL ASSETS	**TOTAL EQUITY+LIABILITIES**
Long-term assets	**Equity**
Tangible assets	Capital contributed by owners (par value)
Intangible assets	Share premium (paid in capital)
Financial investments	Retained earnings
Other long-term assets	**Liabilities**
Current assets	Short-term borrowings
Cash and cash equivalents	Long-term debt
Accounts receivable	Accounts payable
Inventories	Notes payable
Other current assets	Accrued expenses

Source: own elaboration based on Dluhošová et al (2014, p. 51)

Obviously, according to Table 2.1, assets are equal to liabilities plus owners' equity, which means that the left and right sides of the table are equal. Therefore, according to the total value of assets, the total value of liabilities and owners' equity can be deduced. At the same time, the balance sheet, income statement and cash flow statement are linked together to describe the operating status of the enterprise, so the profit statement and cash flow statement also provide valuable background for most decision makers to obtain information about the financial situation.

2.2.2 Income statement

"*The income statement presents information on the financial results of companies' business activities over a period of time. The income statement communicates the amount of revenues that the company generated during a period and the costs that it incurred in connection with generating the revenues.*" (Dluhošová et al., 2014, p.53)

Revenue is usually derived from the company's sales of products or services, but the items of expenditures vary according to the type of business. The income statement is a report that summarizes all of these revenues and expenses by different types. An income statement is a financial statement that helps determine a business's past financial performance, predict future performance, and assess its ability to generate future cash flows. The income statement includes revenues and expenses, as well as net income or loss incurred over a period of time as a result of profit-making activities. The income statement shows whether investors and management made profit during the reporting period.

Table 2.2 Structure of the income statement

Item
Sales (revenues)
- Costs of goods sold (costs of producing or acquiring product or service to be sold)
= Gross profit
- Operating expenses (marking and selling, general and administrative, depreciation expense)
= Operating income (earning before interest and taxes)
- Non-operating income and expenses
= Earnings before taxes
- Income tax
= Net income

Source: own elaboration based on Fabozzi (2006, p. 98)

A company' s net income for an accounting period is measured as follows:

$$Net\ income = (\text{Total Revenue} + \text{Gains}) - (\text{Total Expenses} + \text{Losses}). \quad (2.2)$$

Total revenue is the sum of operating and non-operating income, while total expenses include expenses incurred for primary and secondary activities.

Operating revenue refers to the basic income generated by the regular and main business of the enterprise, such as the sales of products in the manufacturing industry. The income of commodity sale of commodity circulation enterprise. Non-operating revenue refers to the

inflow of economic benefits formed in the daily activities of selling commodities, providing labor services and transferring the right to use assets, which is not the main business income of an enterprise. Such as materials and packaging sales, fixed assets rental, waste materials sales income. Non-operating revenue has the characteristics of infrequent occurrence, the amount of each business is generally small, and the proportion of the income is relatively low. Gains are also called other income and represents net income from other activities. This includes net income from one-off non-commercial activities, such as the sale of long-term assets.

The cost for a business to continue operation and turn a profit is known as an expense. Total expenses refer to all expenses incurred in earning normal operating income related to the business of the company. Losses are all expenses incurred for the sale of long-term assets at a loss, either one-time or any other unusual expenses or litigation costs.

2.2.3 Cash flow statement

"Although the income statement and balance sheet provide a measure of a company's performance and financial condition, cash flow is also critical to its long-term success. Disclosing the sources and uses of cash helps creditors, investors, and other statement users evaluate the company's liquidity, solvency, and financial flexibility." (Robinson et al, 2015, p.19)

Whether it is the external expenditure of an enterprise or the receipt of a sum of money, it is necessary to clarify whether the money is caused by operating activities, or investment or financing activities, so as to make a classification of the money, at the end of the period, it is summed up as the cash flow statement. The cash flow statement is simply the cash inflow and outflow ledger recorded by the enterprise according to certain classification. It is the most direct financial statement of the enterprise. The cash flow statement can clearly reflect the ability of the enterprise to generate net cash flow and more clearly reveal the liquidity and financial condition of the enterprise's assets.

Table2.3 Structure of cash flow statement

Cash and cash equivalents at beginning of period (excluding time deposit investments)
+/-Cash flow from operating activities
+/- Cash flow from investing activities
+/- Cash flow from financing activities
Net change in cash and cash equivalents
Cash and cash equivalents at end of period (excluding time deposit investments)

Source: Own construction based on Robinson et al (2015, p.48)

The cash flow statement can be divided into three parts: cash flow generated by operating activities, cash flow generated by investing activities and cash flow generated by financing activities. Operating activities refer to the company's main income-generating activities and other non-investment or financing activities. Investing activities are the purchase or sale of any cash flow from long-term assets or other investments. Financing activity is the inflow of cash from investors and the outflow of cash to shareholders as dividends when a company generates revenue. In addition, other activities affecting the company's long-term liabilities and equity are also included in the financing activities section of the cash flow statement. Financing activity is the inflow of cash from investors and the outflow of cash to shareholders as dividends when a company generates revenue. In addition, other activities affecting the company's long-term liabilities and equity are also included in the financing activities section of the cash flow statement.

2.3 Common-size analysis

"One simple but powerful analytical tool is common-size financial statements, a tool that is helpful in highlighting relations in a financial statement. Common-size income statements and balance sheets express all items in the statement as a percentage of a common base. Common-size balance sheets often use total assets as the base. Sales revenue is a common base in a common-size income statement." (Wahlen et al, 2010, p.42)

Common-size analysis is one tool to compare companies across time and with other

companies. Common-size analysis is a method that helps analysts determine the relationship between the various components of a company's balance sheet, income statement, and a common factor, such as total assets or total sales. The greatest benefit of common-size analysis is that it allows investors to identify significant changes in a company's financial position. It is easier to observe rapid increases and decreases, such as a rapid decline in reported profits for a quarter or a year. Not only that, but the analysis of the same size can provide insight into the different strategies' companies are using. For example, a company may be willing to sacrifice profits for market share, which may increase overall sales at the expense of gross profit, operating profit, or net profit.

Common-size analysis have horizontal common-size analysis and vertical common-size analysis these two types to be conducted.

2.3.1 Horizontal common-size analysis

Horizontal analysis of financial statements is one of the most important techniques to find out the financial condition of a company. The horizontal analysis looks at the amounts in the multi-year financial statements, and the amounts in the past financial statements are restated as a percentage of the base year amounts. The horizontal analysis method refers to comparing the information reflecting the financial status of the enterprise during the reporting period with the information reflecting the financial status of the enterprise in the previous period or a certain period in history, and studying the development and changes of various business performance or financial status of the enterprise. Horizontal analysis involves taking years of financial data and comparing them to each other to determine growth rates. This helps analysts determine whether companies are growing or declining and identify important trends.

2.3.2 Vertical common-size analysis

Vertical analysis is a financial statement analysis in which each item in the financial statement is shown as a percentage of a base number. Using vertical analysis to look up and find statements in financial statements enables investors to keep track of major changes in the company themselves. Vertical analysis is the conversion of each line of financial statement data

into an amount of easy comparison or common size and expressed as a percentage. This is done by stating the income statement items as a percentage of net sales and the balance sheet items as a percentage of total assets. Using vertical analysis to look up and find statements in financial statements enables investors to keep track of major changes in the company themselves.

2.4 Financial ratio analysis

Financial ratio analysis can reveal the internal connections between different items in the same statement or between different items in different statements, which can provide investors, creditors and internal management with an understanding of the operating conditions and deficiencies of the enterprise. Financial ratios are determined by dividing one number by another and are usually expressed as percentages. Financial ratios are easy to calculate, easy to use, it is used to analysis enterprise financial status of the most common tools. Financial ratios can provide a lot of information that is not available elsewhere. Because ratios are simply a mathematical comparison based on ratios, both large and small companies can use ratios to compare their financial information. In a sense, the ratio is just a raw calculation of financial position and performance, regardless of the size of the company, so it can be used to compare different companies in different industries to determine their profitability, liquidity, solvency, etc.

2.4.1 Profitability ratios

"Profitability reflects a company's competitive position in the market, and by extension, the quality of its management. The income statement reveals the sources of earnings and the components of revenue and expenses. Earnings can be distributed to shareholders or reinvested in the company. Reinvested earnings enhance solvency and provide a cushion against short-term problems." (Robinson et al, 2015, p.329)

Profitability ratios are a type of profit and loss statement analysis used to show the ability of an enterprise to earn profits in normal operations and to assess the economic attractiveness of an enterprise. The profitability ratios can tell whether the company has obtained sufficient operating profit from its assets. The key to profitability is that they cannot be viewed in isolation,

but need to be compared with the company ’s peers and their own history. Generally speaking, the higher the profit margin, the better the company's financial situation, but not that the ratio is low means that the company's situation must be very bad. The ratio is the result of comparing the numerator and denominator. We should compare the changes of the numerator and denominator to get a reasonable result. Below we explain and define selected commonly used ratios.

Operating profit margin（OPM）

Operating profit margin is a ratio of profitability that reflects the percentage of profit a company earns from operations before taxes and interest expenses are deducted. It measures a company's profitability entirely on an operational basis. Operating profit margins vary from industry to industry and are often used as a benchmark to measure a company against similar companies in the same industry. For a company, the higher the operating profit margin, the more efficient its business, so it has a higher profit. It can reveal the best performing companies in an industry and suggest the need for further research into why a particular company has outperformed or fallen behind its peers.

The formula to calculate operating profit margin is the following,

$$OPM = \frac{EBIT}{Revunue}. \tag{2.3}$$

Net profit margin (NPM)

Net profit margin is used to calculate the percentage of profits a company generates from its total revenue. It also shows the amount of revenue spent on producing goods or services. Net profit margin is a measure of profitability. Higher net margins mean that a company is translating sales more efficiently into profits. Net profit margin includes all factors affecting profitability, whether or not under management control. The higher the ratio, the more effective the company is in cost control. Compared with the industry average, it tells investors how well a company's management and operations are performing relative to its competitors. It tells investors which sectors are relatively more profitable than others, compared with different sectors.

The formula to calculate net profit margin is the following,

$$NPM = \frac{EAT}{Revenue}. \quad (2.4)$$

Gross profit margin ratio

The gross profit margin is to measure the efficiency of the company's production or production process. It tells managers, investors and other stakeholders the percentage of sales revenue remaining after subtracting the cost of goods sold by the company. The higher the percentage, the more other service costs and obligations the company retains for each $1 sold. It shows how much profit the company made after paying off the cost of goods sales (COGS). Under the same conditions, the higher the gross profit margin, the better. A company with a higher gross profit margin ratio than its peers almost always has more efficient processes and more efficient overall operations.

The formula to calculate net profit margin is the following,

$$Gross\ profit\ margin = \frac{Total\ revenue - Cost\ of\ goods\ sold}{Revenue}. \quad (2.5)$$

Return on assets (ROA)

"The rate of ROA measures a firm's success in using assets to generate earnings independent of the financing of those assets. ROA takes as given the particular set of environmental factors and strategic choices that a firm makes and focuses on how well a firm has used its assets to generate earnings in a particular period. Most importantly, ROA ignores the means and costs of financing the firm's net assets." (Wahlen et al, 2010, p.259)

Return on assets measures the net income generated by total assets over a period of time by comparing net income with total assets. That is, return on assets measures how effectively a company manages its assets to generate profits over time. A higher ratio is better for investors because the higher the ratio, the more efficient the management of the utilization of economic resources and the greater the net income. A positive return on assets ratio usually also indicates an upward trend in profits. Return on assets ratio is most useful for comparing companies in the same industry because different industries use assets differently.

The formula to calculate return on assets is the following,

$$ROA = \frac{EBIT}{Assets}. \quad (2.6)$$

Return on equity (ROE)

Return on equity is a simple measure of return on investment that compares net income or profits with shareholders' equity. The ratio represents the total return on equity capital and the company's ability to convert equity investments into profits. Return on equity compares the company's return on equity with the industry average level, which shows how the company's management allocate shareholder capital, clearly points out the company's competitive advantages and determines the company's ability to create value for shareholders. The higher the return on equity, the better. The higher the return on equity, the more efficient the company is at generating profits from its own assets.

The formula to calculate return on equity is the following,

$$ROE = \frac{EAT}{Equity}. \quad (2.7)$$

2.4.2 Liquidity ratios

"Liquidity analysis, which focuses on cash flows, measures a company's ability to meet its short-term obligations. Liquidity measures how quickly assets are converted into cash. Liquidity ratios also measure the ability to pay off short-term obligations. In day-to-day operations, liquidity management is typically achieved through efficient use of assets. In the medium term, liquidity in the non-financial sector is also addressed by managing the structure of liabilities." (Robinson et al, 2015, p.320)

Liquidity ratios show how quickly a company can convert its liquid assets into cash, allowing it to repay its current liabilities on time. In short, a company's liquidity is an indicator of its ability to meet short-term obligations and an important measure of its financial health. Almost all liquidity ratios measure the relationship between current assets and current liabilities. Current assets refer to the assets that are expected to generate cash flow within an operating cycle or within 12 months. Current liabilities are the debts that must be repaid within an operating cycle or within 12 months. So, in the liquidity ratio, liquidity and short-term solvency are used together. A good liquidity ratio is greater than 1. This suggests that the company is in good financial shape and is unlikely to face financial difficulties. The higher the ratio, the

greater the margin of safety the firm has to meet its current liabilities.

Current ratio

The current ratio is the broadest measure of short-term liquidity and one of the most common measures of a company's short-term solvency or liquidity. Current ratio is the ratio of current assets to current liabilities,

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}. \quad (2.8)$$

It takes into account all available current assets, including inventory and receivables. It measures whether there are enough current assets to cover current liabilities and a certain margin of safe assets to offset potential losses in the realization of current assets. This ratio evaluates the company's operations and the financial position between the company and its outstanding debt. *"A very high current ratio may accompany poor business conditions, whereas a low or decreasing ratio may accompany profitable operations. For example, during a recession, firms may encounter difficulties in selling inventories and collecting receivables, causing the current ratio to increase to higher levels due to the growth in receivables and inventory. In a boom period, just the reverse can occur."* (Wahlen et al, 2010, p.364)

Quick ratio

The quick ratio is also known as the acid test ratio. The quick ratio measures the relationship between quick assets and current liabilities. It measures whether there are enough quick funds that can be converted at any time to pay current debts. Quick assets include only cash and near-cash assets. It eliminates certain liquid assets that may be harder to convert into cash, such as inventories and advances, which are usually less liquid than accounts receivable. A quick ratio greater than 1 means there should be no problem with liquidity. The higher the ratio, the more liquid the company, the better able it is to solve the problem.

"This ratio also reflects the fact that inventory might not be easily and quickly converted into cash, and furthermore, that a company would probably not be able to sell all of its inventory for an amount equal to its carrying value, especially if it were required to sell the inventory quickly. In situations where inventories are illiquid (as indicated, for example, by low inventory turnover ratios), the quick ratio may be a better indicator of liquidity than is the current ratio."

(Robinson et al, 2015, p.322)

The formula to calculate quick ratio is the following,

$$Quick\ Ratio = \frac{Current\ assets - Inventories}{Current\ Liabilities}. \quad (2.9)$$

Cash ratio

The cash ratio measures the absolute liquidity of a company. It measures whether a company can repay its current debt simply by using cash and investments that can be easily converted into cash. It is more conservative than other measures of liquidity (current ratio, quick ratio) and is the most conservative of all funds because the numerator includes only cash and equivalents. It effectively compares cash and cash equivalents balances with current liabilities. It is calculated by dividing cash and short-term securities by current liabilities. A higher cash ratio usually means a better financial position.

"In a general market crisis, the fair value of marketable securities could decrease significantly as a result of market factors, in which case even this ratio might not provide reliable information." (Robinson et al, 2015, p.322)

The formula to calculate cash ratio is the following,

$$Cash\ Ratio = \frac{Cash + Cash\ Equivalents}{Current\ Liabilities}. \quad (2.10)$$

2.4.3 Solvency ratios

"Assessment of a company's ability to pay its long-term obligations (i.e., to make interest and principal payments) generally includes an in-depth analysis of the components of its financial structure. Solvency ratios provide information regarding the relative amount of debt in the company's capital structure and the adequacy of earnings and cash flow to cover interest expenses and other fixed charges (such as lease or rental payments) as they come due." (Robinson et al, 2015, p.325)

Solvency refers to the ability of an enterprise to fulfill its long-term financial commitments. A company's solvency depends on how much debt it borrows as debt and its ability to repay it. Solvency ratio is a measure of a company's ability to repay its long-term debt and thus assess its financial condition. It also assessed the likelihood that the company would continue to

consolidate its debt obligations.

Different industries have different acceptable solvency ratios. Generally, the lower a debt ratio the higher the likelihood that it is liable for breach of contract. The higher the shareholder capital, the greater the benefit of the solvency business and vice versa. Solvency ratio is the ratio calculated to judge the financial condition of an organization from the perspective of long-term solvency. These ratios measure a company's ability to meet its long-term obligations and are closely tracked by investors to understand and appreciate a company's ability to repay its long-term debts and help them make long-term investment decisions in its funds. Below we characterize selected ratios which are commonly applied.

Debt ratio

The debt ratio is the most popular solvency ratio, calculated by dividing total debt by total assets. The ratio is designed to determine the proportion of a company's total assets financed by debt and to help assess the total leverage ratio of the company. Debt ratios are a key indicator of a company's long-term financial sustainability, as failure to service debt and pay interest can lead to bankruptcy. The higher the debt ratio, the higher the leverage, and the higher the financial risk caused by the higher debt in the capital structure of the company, the debt becomes difficult to repay. While lower debt ratios indicate higher creditworthiness, there are risks associated with companies with too little debt. The appropriate debt ratio depends on industry-specific and firm-specific factors. While a very low debt ratio is good from the point of view of a company's assets being sufficient to meet its obligations, it may indicate underutilization of major sources of funding and may lead to growth constraints. High debt ratios suggest high risk for both debt holders and equity investors. Because of the high risks, the company may not be able to get financing well or raise more capital at all.

The formula to calculate debt ratio is the following,

$$Debt\ Ratio = \frac{Total\ Debt}{Tatal\ Assets}. \tag{2.11}$$

Debt-to-equity ratio

Debt-to-equity ratio is another measure of the debt-to-equity portion of a company's capital

structure. Debt-to-equity ratio is the ratio of a company's total liabilities to its shareholders' equity. A company's debt is its long-term debt, such as a loan with a maturity of more than one year. The lower the debt-to-equity ratio, the lower the risk. A higher debt-to-equity ratio is bad because it means the business relies more on external lenders and is therefore riskier, especially when interest rates are higher. The upward trend in debt-to-equity ratios is worrying because it means that the percentage of corporate assets financed by debt is increasing.

The formula to calculate debt-to-equity ratio is the following,

$$Debt\ to\ equity = \frac{Total\ Debt}{Equity}. \tag{2.12}$$

Interest coverage

The interest coverage rate represents the number of times a company can use its earnings to pay off its interest from the debt. The ratio is calculated by dividing the EBIT by the company's interest expense, and the higher the ratio, the more able it is to service its debt. Good interest coverage is important because a company cannot grow, and may not even survive, unless it can pay its creditors interest on its existing debt. The company's interest coverage rate determines whether the debt can be repaid. If a company has a low interest coverage, it is more likely that the company will be unable to repay its debt, putting it at risk of bankruptcy. A higher ratio indicates that there is enough profit available to repay debt, but it may also mean that the company is not using its debt correctly.

The formula to calculate interest coverage is the following,

$$Interest\ Coverage = \frac{EBIT}{Interest\ Paid}. \tag{2.13}$$

Financial leverage

Financial leverage helps determine the impact of debt on a company's overall profitability. It indicates how much a business relies on debt issued and how it uses debt as part of its financing strategy and its reliance on borrowing. In short, the more leveraged a particular company is, the more it uses its outstanding debt. Greater leverage means higher interest rates, leading to higher interest payments.

The formula to calculate financial leverage is the following,

$$Financial\ leverage = \frac{Assets}{Equity} \quad (2.14)$$

2.4.4 Assets management ratios

"Activity ratios are analyzed as indicators of ongoing operational performance—how effectively assets are used by a company. These ratios reflect the efficient management of both working capital and longer term assets. As noted, efficiency has a direct impact on liquidity (the ability of a company to meet its short-term obligations), so some activity ratios are also useful in assessing liquidity." (Robinson et al, 2015, p.314)

Assets management ratios or activity ratios measure how effectively the firm is managing its assets. The asset management ratio is the key to analyzing how an enterprise manages its assets effectively to generate sales. If you invest too much in the company's assets, the working capital will be high, which leads to a decrease in free cash flow and a decline in the stock price. However, without adequate investment in assets, sales are lost and profitability declines. Strong companies use their assets to generate more cash flow and revenue for their businesses. This additional capital can then be reinvested in operational activities to generate more growth. Activity ratios are critical to assessing the fundamentals of a company, as they indicate the level of management as well as the extent to which a company generates revenue. Here are the commonly used activity ratios selected.

Working capital turnover

"Working capital is defined as current assets minus current liabilities. Working capital turnover indicates how efficiently the company generates revenue with its working capital. For example, a working capital turnover ratio of 4.0 indicates that the company generates €4 of revenue for every €1 of working capital. A high working capital turnover ratio indicates greater efficiency (i.e., the company is generating a high level of revenues relative to working capital)." (Robinson et al, 2015, p.319)

Working capital turnover is a measure of the efficiency of an enterprise in using working capital for sales, which indicates the effectiveness of the company in using its working capital. High turnover indicates that management is very effective in using the company's short-term

assets and liabilities to support sales. Often, a higher ratio can help your business run more smoothly and limit the need for additional capital. Instead, lower ratios indicate that companies are investing too much in accounts receivable and inventory assets to support their sales.

Net working capital is the aggregate amount of all current assets and current liabilities. It is used to measure the short-term liquidity of a business and to get a general idea of the ability of management to use assets efficiently.

The formula to calculate working capital turnover is the following,

$$Working\ capital\ turnover = \frac{Revenues}{Net\ Working\ Capital}. \quad (2.15)$$

Accounts receivable turnover (ART)

Accounts receivable turnover is a measure of the payment efficiency of a business using customer credit and collecting generated debt. Accounts receivable turnover is calculated by dividing your net credit sales by your average accounts receivable. The ratio measures how effectively a company is expanding credit and collecting debt. In general, the higher the receivables turnover rate, the more times the receivables turnover, the more efficient the business is in collecting credit from customers. If the receivables turnover rate is low, it may not be possible to effectively collect the debt related to the sale.

The formula to calculate accounts receivable turnover is the following,

$$ART = \frac{Revenues}{Accounts\ Receivable}. \quad (2.16)$$

Total assets turnover (TAT)

"The total asset turnover ratio measures the company's overall ability to generate revenues with a given level of assets. A ratio of 1.20 would indicate that the company is generating €1.20 of revenues for every €1 of average assets. It is therefore helpful to analyze working capital and fixed asset turnover ratios separately." (Robinson et al, 2015, p.319)

Total asset turnover measures a company's ability to use its assets effectively to generate sales. Usually, a higher ratio means that less money is invested to generate sales. A lower ratio usually indicates an overinvestment in an asset or a significant decline in sales. However, sometimes low asset turnover does not necessarily indicate a negative trend in the company. A

lower ratio may also indicate that a company's assets are underutilized.

The formula to calculate total assets turnover is the following,

$$TAT = \frac{Revenues}{Total\ Assets}. \tag{2.17}$$

2.5 Pyramidal Decompositions and influence quantification

Pyramid decomposition can analyze the factors that drive the value of financial ratio. Its core idea is to disassemble and combine the factors based on the induction of the central idea, and then carry out analysis and explanation. It works by breaking the basic ratio into ratios of its components, and then we can find out what factors are affecting its value or evolution. Finally, we can find the most influential factors and make targeted improvements. The basic example of pyramid analysis is Dupont analysis.

The Dupont analysis is an expression that divides return on equity into three parts: profit margin, asset turnover and financial leverage.

Profit margin is a measure of profitability. Calculate the profit margin by finding the percentage of net profit as a percentage of total revenue. As a feature of the Dupont analysis, if a company's profit margin increases, each sale brings more capital to the company's bottom line, resulting in a higher overall return on equity. Asset turnover is a measure of the efficiency with which a company uses its assets to generate sales revenue for the company. If the turnover rate increases, the company will generate more sales per asset, raising the overall return on equity again. Financial leverage is the amount of debt a company uses to fund its operations, compared with the amount of equity it uses. Increased financial leverage leads to increased return on equity. Thus, we can get the following formula.

$$ROE = \frac{EAT}{Revenues} \cdot \frac{Revenues}{Tatal\ Assets} \cdot \frac{Total\ Assets}{Equity}, \tag{2.18}$$

where $\frac{EAT}{Revenues}$ means profit margin, $\frac{Revenues}{Tatal\ Assets}$ means assets turnover and $\frac{Total\ Assets}{Equity}$ means financial leverage.

In the meantime, the profit margin is equal to the following formula:

$$\frac{EAT}{Revenues} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Revenues}, \tag{2.19}$$

where $\frac{EAT}{EBT}$ means tax burden, $\frac{EBT}{EBIT}$ means interest burden and $\frac{EBIT}{Revenues}$ means EBIT margin.

After substitution into Dupont analysis we get,

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Revenues} \cdot \frac{Revenues}{Tatal\ Assets} \cdot \frac{Total\ Assets}{Equity}. \quad (2.20)$$

There are five steps to analyze the indicators. Changes in these indicators lead to changes in the basic ratio, and how quantify component ratios can lead to changes in fundamental ratios can be seen.

The first step is to calculate the basic ratio value for each period and calculate the absolute value and relative value changes of the basic ratio value.

The formula to calculate relative change in ROE is the following,

$$\Delta ROE^{rel} = R_X = \frac{ROE_1 - ROE_0}{ROE_0}. \quad (2.21)$$

The formula to calculate absolute change in ROE is the following,

$$\Delta ROE^{abs} = ROE_1 - ROE_0. \quad (2.22)$$

The second step is to decompose the basic ratio into five component ratios. The next step is to calculate the component ratio value for each period according to the annual report.

The fourth step is to observe the effect of the change of the quantized component ratio on the basic ratio value by choosing the method of quantization effect. The methods of quantifying influence include gradual changes method, decomposition with surplus method, logarithmic decomposition method, functional decomposition method and integral method. In this thesis, we will mainly use the logarithmic decomposition method to observe the effect of quantitative component ratio changes on the basic ratio. The impact of the component ration on the change in the basic ratio is calculated as follows:

$$\Delta X_{ai} = \frac{\ln I_{ai}}{\ln I_x} \cdot \Delta X. \quad (2.23)$$

where X is the basic ratio, ΔX is the absolute change in the basic ratio, $I_{ai} = \frac{a_{i,1}}{a_{i,0}}$ is the index of change in component ratio and $I_x = \frac{X_1}{X_0}$ is the index of change in basic ratio.

The final step is to determine their impact on the base ratio from the results in step 4, and to order the ratios.

3. Characteristics of Selected Company

In this chapter, we will describe the financial characteristics of Walt Disney. As we know, understanding the financial characteristics of a company is an indispensable step for the company financial analysis subsequently. The following narration will mainly focus on two parts, which are the basic introduction of Walt Disney Company and the special successful experience introduction of Walt Disney Company.

3.1 Overview of Walt Disney

Walt Disney Company, also known as Disney, is a diversified multinational mass media and entertainment group in the United States. Disney was originally founded by the brothers Walt and Roy O. Disney on October 16, 1923. The company ranks 170th in the world's top 500 companies in 2019. At the same time, according to the company's latest data report, we learned that the company's market value is 182.692 billion US dollars. The company has established its leading position in the US animation industry before embarking on live-action filmmaking and before TV and theme production. The company is known for its film studio division The Walt Disney Studios, which includes the well-known and loved Marvel Studios, 20th Century Studios, etc. The other major departments of Disney are the Disney Media Network, Disney Parks, etc. Its most famous industry is its 14 Disney theme parks established around the world. Mickey Mouse, the cartoon image derived from the company's classic cartoons, has always been the company's main logo and mascot. With the continuous development of the times, it is not just limited to the animation film industry. Nowadays, Walt Disney has expanded its business scope. For example, it develops industries in drama, broadcasting, music, publishing and online media comprehensively. In the process of analyzing a single company, we can not only limit ourselves to just analysis itself, but also need to observe the development of the market. Which means, we cannot ignore the development of the company’s competitors who has the similar scale as us. Only in this way can our company keep pace with the times and keep moving forward. Walt Disney ’s main competitors are AT & T ’s Warner Media and Comcast ’s NBC Global Group.

3.1.1 Organizational structure and culture of Walt Disney

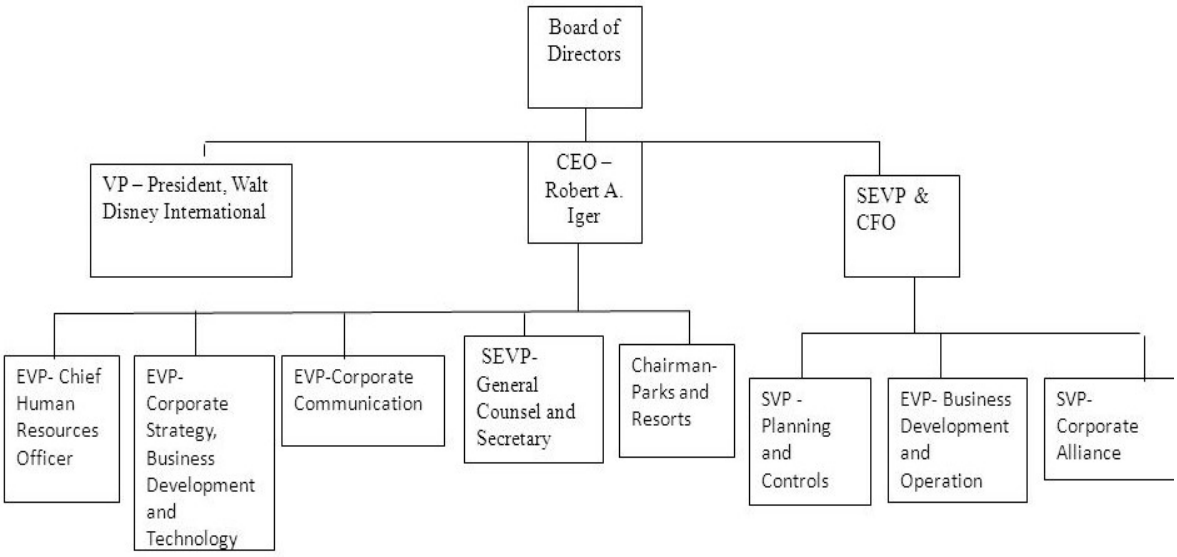
To begin with, we will briefly introduce the corporate culture of Walt Disney. Disney's organizational culture is closely related to American culture and it is very entertaining. Corporate culture is often regarded as one of the representatives of American culture. For example, the company's cultural characteristics have stimulated the interest of employees (also known as "actors") who are committed to providing customers with the best entertainment experience, while customers are called "guests" by the company. *"The following are the main characteristics of The Walt Disney Company's corporate culture:*

1. *Innovation. As an absolute leader in the animation industry, innovation is an indispensable main cultural focus of Disney. In this feature, the goal of innovation is to encourage employees to continuously explore their creativity and imagination to create excellent products and complete good business performance.*
2. *Decency. Since Walt Disney focuses on family-oriented business, it is essential to emphasize etiquette in its corporate culture. This helps make the company's products suitable for audiences of all ages.*
3. *Quality. Adhering to the high-quality products created can distinguish the business level of Disney from competitors in the global market.*
4. *Communities. This is because, for example, the company has developed plans to motivate employees to treat themselves as members of the entertainment community and strive for excellence in these communities.*
5. *Storytelling. The company's organizational culture involves excellent storytelling skills, so that the company's history can be said to be a legend.*
6. *Optimistic. Positive thinking can be translated into employee's contributions to Disney products. This cultural feature focuses on showing the human's longing for hope and happiness."*[1]

Secondly, we show the organizational structure of Disney in charts 3.1 and 3.2.

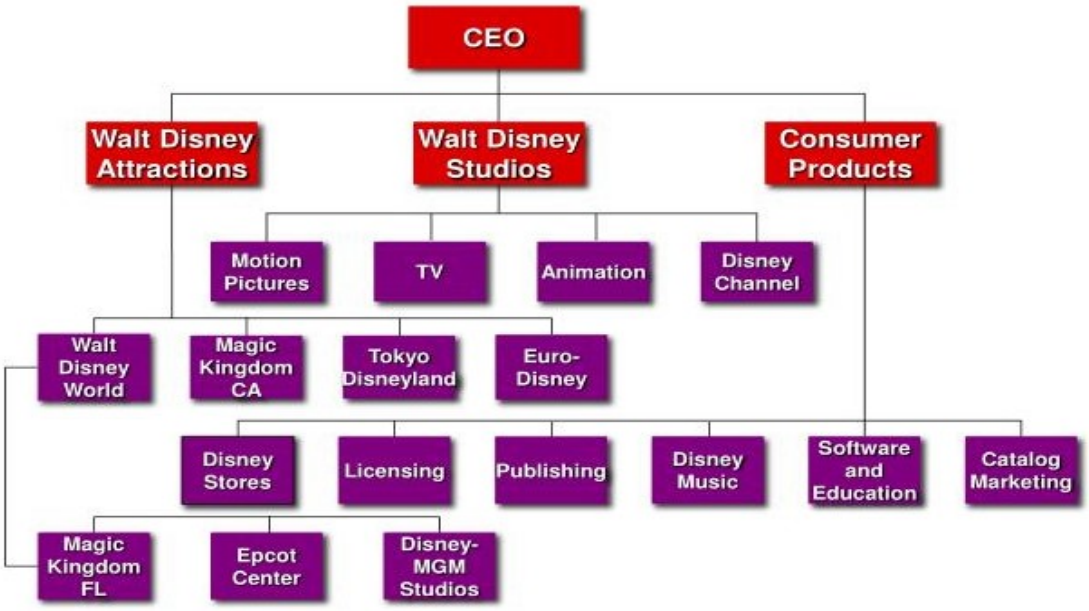
[1] Source: Available on http://panmore.com/disney-organizational-culture-excellent-entertainment-analysis

Chart 3.1 Organizational structure of Walt Disney Company：



Source: available on https://uanmuvorda.blogspot.com/2018/10/walt-disney-company-organizational.html

Chart 3.2 Cooperative multidivisional (M-form) organizational structure of Walt Disney Company:



Source: available on https://uanmuvorda.blogspot.com/2018/10/walt-disney-company-organizational.html

As the charts show, we can see that Disney's application in corporate management is a coordinated and diversified organizational structure, which promotes the realization of the

unified goal of the whole company through the coordinated operation of each business department. This organizational structure to some extent supports strategic partnerships, which ensure that Disney can remain competitive in the global market against time warner, SONY, CBS and all the other big companies. It is worth mentioning that, Disney has a cooperative multi-department (M-form) organizational structure which focuses on business types. Diversified or M-type organizational structure is very common in diversified companies. This cooperative multidivisional (M-form) organizational structure is reflected in the company's functional departments, and it has a strong concentration. This centralization is structural, which ensures that Disney continues to have strong and powerful management control over the diversified development of the global mass media, entertainment, and amusement park industries. *"It can be divided into three points. 1. Business type subdivision 2. Function group 3. Geographical division. The advantage of such an organizational structure is to support collaborative diversification and centralized management and control can make the company respond quickly to changes when market is on a trending. The disadvantage is the other side of centralized management, which shows constraints are stronger than diversification and related management strategies."*[2] For example, regulations for families and audiences of all ages limit the diversification of company products. Therefore, we suggest that the company should adjust its centralized management strategy to better realize the diversified development of the global market.

3.1.2 Major events of Disney

In this part, according to Walt Disney's official website, we will introduce some major events of Disney. [3]

1923: Walt Disney and brother Loy O. Disney founded the Disney Brothers Studio on October 16 with an original capital of $ 3,200.

1929: Reorganized the enterprise and changed its name to Walt Disney Productions

1943: The wartime promotional animation "Face of the Heads" won the Oscar for Best

[2] Source: Available on http://panmore.com/walt-disney-company-organizational-structure-synergistic-diversification

[3] Source: Available on https://d23.com/disney-history/

Animated Short Film.

1955: The first theme park, located in Disneyland, Anaheim, California, was opened.

1957: Disney Corporation is officially listed on the New York Stock Exchange. The company has been part of the Dow Jones Industrial Average since 1991.

1984: After reluctantly escaping Saul Steinberg's comprehensive acquisition project, Roy E. Disney and his business partner Stanley Gold immediately replaced the board of directors.

1996: Acquired American Broadcasting Corporation (ABC0), also brought ESPN to Disney.

2017: Disney acquired the cable television and film and television business affiliated to 21st Century Fox. This acquisition has profound significance for the subsequent development of the company.

2019: M & A with 21st Century Fox is officially completed and becomes a subsidiary of The Walt Disney Company.

3.1.3 Walt Disney 's industry position

According to Fortune Global 500 data for 2019, Disney ranks 170th among the top 500 companies in the world. The company was founded in 1923 and listed on the New York stock exchange in 1957. The development strategy of Disney takes the creation of intellectual property rights as the core and starting point, and forms a closed-loop ecological industrial chain of "intellectual property rights + media + theme park + content + technology ". Due to the company's strong IP creation capabilities and complete ecological industry chain, coupled with years of historical development, it formed its unique core competitiveness eventually. This is a successful model that rivals in the same industry are difficult to replicate. Disney has maintained a leading position as a global cultural and creative company for many years, and it is unlikely that a strong competitor will emerge in a short term. There are four major sectors are involved of the company's main business, which are sorted according to proportion as following. They are media network, paradise and resort, film and television entertainment, consumer goods and interactive media. The company's business revenue is mainly comes from North America and Europe, which together accounted for 88.67% in the total revenue of the company. Besides, the company's industry status will be introduced based on the four main business operations we

have introduced above. [4]

1. Media network. The media network business represented by ESPN and ABC accounts for the largest part of the Disney Group's revenue, with a total proportion of about 40%. ESPN is one of the world 's largest sports channels and one of Disney 's main sources of revenue, accounting for more than one-third of the media network segment. The subscription fee is extremely high, reaching a monthly subscription fee of $ 7.50, but because of the rich event resources, the audience still willingly pays.

2. Paradise and resort. Disney has six Disney parks in the world. Since the establishment of Disneyland Paris, Disney Overseas Park has adopted a dual-company structure of separation of ownership and operation, that is, Disney and local joint ventures to establish an owner company, and the owner company entrusts the management company to carry out daily operation management of the project. The sponsor is the owner company, and the management company is led by Disney. Under this system of separation of ownership and operation, the owner company bears the depreciation and financial costs of the huge investment, and the management company takes the expensive management fee, which can be said to be stable and profitable.

3. Film and television entertainment. In 2006, 2009 and 2012, Disney acquired Pixar Animation, Marvel Studios and Lucasfilm for US $ 7.4 billion, US $ 4.2 billion and US $ 4.1 billion, respectively, thereby establishing its own film and television empire. Disney's movies can maintain extremely high standards for a long time, but due to the large volatility in the performance of the film and television industry, the income also has certain fluctuations.

4. Consumer goods and interactive media. Although the consumer goods and interactive media sectors do not account for a large percentage of Disney 's total revenue, about 10%, they are an important part of derivatives development.

3.1.4 Walt Disney's markets around the world

In order to stand out among many animation filming companies in the world, Disney has formulated a series of strategies to expand the global market. One of them is the foreign outsourcing strategy. Walt Disney has signed contracts with many factories in China to produce

[4] Source: Available on http://panmore.com/walt-disney-company-organizational-structure-synergistic-diversification

its products. Because the cost of human resources in China is much lower than in Europe and the United States. As a result, Disney has greatly reduced costs and doubled profits. Secondly, another strategy adopted by Disney is to sell its products in foreign markets. Not only in the United States, Disney has physical stores in various European countries, such as the United Kingdom, Italy and Spain. Especially Hong Kong Disneyland was originally the only one in China. However, Hong Kong ’s Disney Resort is too small to meet the tourism needs of the entire country. Until the opening of Shanghai Disneyland in 2016, China's demographic dividend and continued GDP growth have greatly increased Disney's performance. On the other hand, Disney also has great advantages in product marketing. Not only theme parks, animated film projects, but also business expansion in multiple areas including online media, online marketing, and television projects. Whenever someone visits one of their theme parks, all products such as toy figures, DVDs and video games will be promoted simultaneously. When facing the challenges of international trade barriers, such as social and cultural differences and economic differences, Disney will target different marketing strategies for different countries. The product price is set according to the national conditions of various countries. More admirably, Disney releases different animated characters and peripheral products according to different cultures. All in all, Disney remains the industry leader with its world-renowned reputation and brand, despite fierce competition between large and emerging companies.

3.2 Success approach of Walt Disney

Walt Disney was first well known for creating animated movies. But it has been constantly innovating its business models in the recent years. It is not limited to the development of animated films, but constantly develops commercial derivatives. Walt Disney is involved in various industries such as Disneyland, new media business and TV shows. On the following paragraphs, we will introduce how Disney has continuously improved itself in the development of history, innovated, and successfully keep its leading position of the industry.

3.2.1 Company values

After studying the material, we think that Disney's company value is reflected in two points. On the one hand, is its company market value. On the other hand, is the company's philosophy. *"Disney is invincible in terms of home animation and live-action movies. By putting movie characters and images on other entertainment assets, these assets are either complementary to the film industry, or as an extension of its value. Disney uses this to continually create value and achieve a long-lasting foundation. "*[5] Based on what we talked about earlier, Disney has a distinctive corporate structure. At the same time, its corporate philosophy is also unique. Perhaps because most of Disney's products are aimed at all ages, so that Disney requires their employees to go deep into the community and feel each project they create by themselves, and truly experience happiness. It is because of this work philosophy of customer satisfaction that the quality of Disney's service has always been excellent. This is worth learning by all the other companies.

3.2.2 The success and experience of Walt Disney

There is not one company's development can avoid difficulty, and Disney is the same. But over the years, after experiencing Walt Disney's theory, Disney has survived the crisis time again and again. Walt Disney's theory proposes a dense synergy. It is reflected in the Disney company. Which include the first is comic strip assets boost the movie. Then is the movie industry is providing materials for the comic strip. Thirdly, Disneyland and the movie industry complement each other. Fourthly, television sets for the promotion of music products. At last, movies provide songs and talent for the music department. But in the twisted animation movie, the prince needs to defeat the dragon to save the princess. Disney has also been in crisis. After the death of Walt Disney, the company's leadership did not continue to adhere to his theory. As a result, the company's film business shifted its focus to the core animation production area, and movie revenue increased. But as a result, Disneyland's ticket revenue growth stagnates, and cartoon character authorization business volume declined. Just as Disney was overlapping and

[5] Source: Available on https://www.hbrchina.org/2016-06-29/4239.html

chaotic, it also encountered a malicious acquisition in 1984. The acquirer tried to sell the core assets of Disney's board of directors, including the movie library and quality real estate around the theme park. The Disney board had to make a key decision: whether to sell Disney at high prices, watch the company fall apart, or look for new leadership. The board of directors make a choice to choose Michael Eisner as the new manager. Michael Eisner started focusing on retail stores, cruise ships, Saturday morning cartoons and Broadway dramas. The effect of this series of actions is remarkable. Disney's market value increased from 1.9 billion US dollars in 1984 to 28 billion US dollars in 1994. Since then, Disney has also acquired Pixar, Marvel, and Lucas Film, further consolidating its core assets. Disney also has a unique advantage. The company has a first-mover advantage in animation and has invested heavily to create lasting and unique characters. Unlike the live actors, these animated characters do not require agents. Save a lot of public relations costs. As it can be seen the biggest value for Disney is its corporate philosophy and Walt Disney's theory. I believe that if Disney continues to improve itself through historical development, introduce new ideas, and insist on the application of Walt Disney's theory, the company's future will be a bright expectation.

4. Financial Analysis of Selected Company

After the theoretical part of Chapter 2 and the introduction of The Walt Disney Company in Chapter 3, this chapter is an extension of these two chapters. We will analyze the financial situation of The Walt Disney Company in more detail. First, we apply the common-size analysis methods for analysis. Then, we apply the financial ratios to analyze the Walt Disney Company. Finally, this company is analyzed through DuPont analysis. The main source of data for this chapter is the annual report of The Walt Disney Company from 2015 to 2019.

4.1 Common-size analysis of selected company

In this subchapter, we will use the common-size analysis to analyze the Walt Disney Company. The common-size analysis is composed of horizontal common-size analysis and vertical common-size analysis. Through these analyses, we can observe the changes in various financial items and explore the reasons for these data changes.

4.1.1 Horizontal Analysis

The horizontal analysis method refers to comparing the information reflecting the financial status of the enterprise during the reporting period with the information reflecting the financial status of the enterprise during a certain period of time to understand the changes in the financial status of the enterprise. There are three financial statements, the balance sheet, the income statement and the cash flow statement, so we will use the horizontal common-size analysis to see the data changes based on the data of these three statements.

Horizontal common-size analysis of balance sheet

The following are the absolute and percentage changes in balance sheet for The Walt Disney Company from 2015 to 2019.

Table 4.1 Absolute changes in balance sheet (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
Total current assets	208	-1,077	936	11,299
Total non-current assets	3,643	4,833	1,873	84,087
Total assets	3,851	3,756	2,809	95,386
Total current liabilities	508	2,753	-1,735	13,481
Total non-current liabilities	4,675	3,322	-3,284	40,848
Total liabilities	5,183	6,075	-5,019	54,329
Total equity	-1,332	-2,319	7,828	41,057

Source: own calculation

Table 4.2 Percentage changes in balance sheet (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
Total current assets	1.24%	-6.35%	5.89%	67.16%
Total non-current assets	5.10%	6.44%	2.34%	102.83%
Total assets	4.37%	4.08%	2.93%	96.74%
Total current liabilities	3.11%	16.35%	-8.85%	75.48%
Total non-current liabilities	20.16%	11.92%	-10.53%	146.38%
Total liabilities	13.11%	13.59%	-9.88%	118.71%
Total equity	-2.74%	-4.90%	17.39%	77.71%

Source: own calculation

From Table4.1 and Table4.2, we can see the absolute and percentage changes of the Walt Disney company in its balance sheet from 2015 to 2019. It can be clearly seen that the total assets have been growing continuously in the past five years. Except that the current assets decreased by 6.35% in 2017 compared with the previous year, the current assets and non-current assets have increased by different ranges in other years. According to financial statements, this was mainly due to the increase in Film and television costs and Parks, resorts and other property. And because Disney has paid down its debt, it has reduced its total liabilities in 2018.

Moreover, it can be clearly observed that total assets, total liabilities and total equity have a very significant increase in 2019. Combined with table 4.1, total assets have increased by

95,386 million USD, total liabilities have increased by 54,329 million USD, and total equity has increased by 41,057 million USD. According to the financial report, this is because the Walt Disney Company acquired the Twenty-First Century Fox, Inc (henceforth TFCF) on March 20, 2019. In addition, the Walt Disney Company also acquired a controlling stake in Hulu.

Horizontal common-size analysis of income statement

In Tables 4.3. and 4.4 we show the absolute and relative changes in income statement's items.

Table 4.3 Absolute changes in income statement (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
Total operating revenue	2,540	-395	5,341	11,404
Total operating expenses	1,500	551	2,941	9,842
operating income	1,040	-946	2,400	1,562
Income before income taxes	1,000	-1,080	941	-114
Income taxes	62	-656	-2,759	1,368
Net income	938	-424	3,700	-1,482

Source: own calculation

Table 4.4 Percentage changes in income statement (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
Total operating revenue	5.90%	-0.87%	11.82%	22.57%
Total operating expenses	5.29%	1.85%	9.67%	29.51%
operating income	7.08%	-6.02%	16.24%	9.09%
Income before income taxes	7.21%	-7.26%	6.82%	-0.77%
Income taxes	1.24%	-12.92%	-62.39%	82.26%
Net income	10.60%	-4.33%	39.50%	-11.34%

Source: own calculation

From Tables 4.3 and 4.4, the data from 2015 to 2016 are increasing, and compared with the data in 2016, the total operating income and net income in 2017 have decreased, -6.02% and-4.33%, this is mainly due to the decrease in sales of film and television. In 2017, the volume of film and television broadcasts and the sales of movies used for home entertainment were not as

good as in 2016. In 2018, the total operating income increased greatly, an increase of 16.24% compared with the previous year.

It can be clearly seen that its income tax has been reduced by a great deal, decreasing by -62.39% compared with the previous year. Therefore, the net income in 2018 has also increased by a great deal, increasing by 39.50% compared with that in 2017. But in 2019, there was a very large increase in income tax, up 82.26% from the previous year, which was also related to the acquisition of controlling interests in Twenty-First Century Fox, Inc and Hulu, which affected a substantial decrease in net income, down -11.34% from 2018.

Horizontal common-size analysis of cash flow statement

In Tables 4.5 and 4.6 we show the absolute and relative changes in cash flow statement's items.

Table 4.5 Absolute changes in cash flow statement (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
net cash flow from operating activities	1,751	-793	1,952	-8,311
net cash flow from investing activities	1,513	-1,647	1,225	9,760
net cash flow from financing activities	1,419	1,739	-116	-8,379

Source: own calculation

From Table 4.5 and Table 4.6, the net cash flow from operating activities decreased in 2017, the decrease in film revenue and the increase in film production expenses, and higher labor and other costs all affected the net cash flow from operating activities. At the same time, the net cash flow from investing activities declined in 2017 only because of lower capital expenditure on international Disney parks and resorts. And the net cash flow from financing activities starting in 2018 continues to decline.

Table 4.6 Percentage changes in cash flow statement (2015-2019) (unit: USD million)

	2015/2016	2016/2017	2017/2018	2018/2019
net cash flow from operating activities	15.38%	-6.04%	15.81%	-58.14%
net cash flow from investing activities	35.64%	-28.60%	29.80%	182.91%
net cash flow from financing activities	24.46%	24.09%	-1.29%	-94.75%

Source: own calculation

We can more intuitively observe that the data in 2019 have undergone great changes. There was a very substantial decline in net cash flow from operating activities due to the payment of approximately $7.6 billion of tax obligations that arose from the spin-off of Fox Corporation in connection with the TFCF acquisition and the sale of the RSNs acquired with TFCF, higher pension plan contributions and higher interest payments. On the contrary, the net cash flow from investing activities increased by 182.91% compared with the previous year. The main reason was to acquire TFCF and donate to Hulu before the merger.

Hulu is the third largest paid streaming service platform in the United States, with the total number of subscribers second only to Netflix and Amazon Prime Video. Hulu was originally co-founded by National Broadcasting Corporation of America and TFCF in 2007. Disney bought a 30% stake in Hulu for $35 million two years after it was founded by NBC universal and TFCF in 2007.In March 2019, when Disney acquired TFCF for $ 71.3 billion, TFCF sold its 30% stake in Hulu to Disney, so Disney held a 60% stake in Hulu and obtained complete initiative.

The net cash flow from financing activities started to decline from 2018, and the decline in 2019 is very large, which is -94.75% lower than that in 2018. The decrease in cash used in financing activities in fiscal 2019 compared to fiscal 2018 was due to a net increase in borrowings in the current year compared to net repayments in the prior year and the absence of common stock repurchases in the current year, partially offset by acquisitions of noncontrolling interests in the current year.

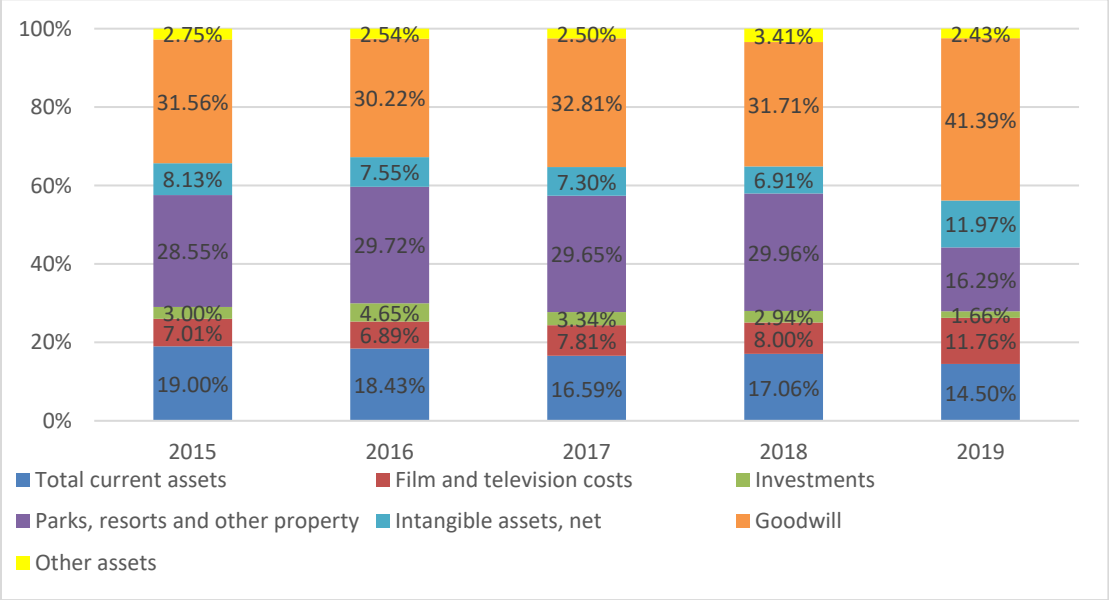
4.1.2 Vertical Analysis

Vertical common-size analysis is to compare the total data of each item in the table with the total report to get the position, importance and change of the selected benchmarks in the whole. We can know whether the enterprise's operation has developed or not.

Vertical common-size analysis of balance sheet

In this part, we can more intuitively observe the proportion of various assets in the total assets of each year from 2015 to 2019 through the figure.

Figure 4.1 Vertical analysis of balance sheet (Total assets)



Source: own calculation

From Figure 4.1, the structure of each asset has not changed very much from 2015 to 2018, but the proportion of goodwill in total assets in 2019 has become larger, which may be because in 2019, the Walt Disney Company acquired Twenty-First Century Fox, Inc and combined rich entrepreneurial content with mature talents, so that the Walt Disney Company can provide more attractive high-quality and entertainment options to meet growing consumer demand, so as to improve the goodwill. So most other assets have fallen as a share of total assets.

However, if we look closely at Figure 4.1, we can see that goodwill and park, resorts and other property account for a large proportion. It is not difficult to conclude that the Walt Disney company's business is a service industry and mainly operates through park and resorts, and it is

beneficial to keep these assets at a positive level.

In addition, we can see that non-current assets account for a large part of total assets, because the Walt Disney Company's film and television industry and parks and other entertainment venues have a lot of equipment.

The following is a vertical common-size analysis of the liabilities and equity in the balance sheet.

Table 4.7 Balance sheet vertical common-size analysis of liabilities and equity

	2015	2016	2017	2018	2019
Total current liabilities	18.52%	18.30%	20.46%	18.11%	16.16%
Total non-current liabilities	26.30%	30.28%	32.56%	28.30%	35.44%
Total liabilities	44.82%	48.58%	53.02%	46.42%	51.60%
Total equity	55.18%	51.42%	46.98%	53.58%	48.40%
Total liabilities and equity	100%	100%	100%	100%	100%

Source: own calculation

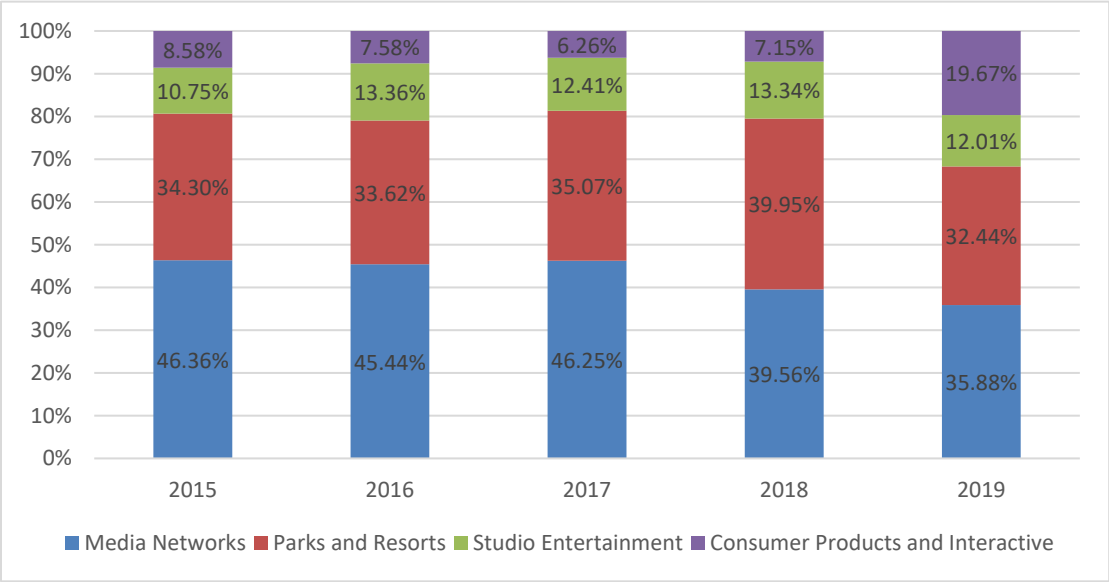
It can be seen from Table 4.7 that total liabilities and total equity are relatively average, accounting for roughly half of the total liabilities and equity from 2015 to 2019. The proportion of total liabilities to total liabilities and equity fluctuates between 44.82% and 53.02%, and the proportion of total equity to total liabilities and equity fluctuates between 46.98% and 55.18%.

We can more intuitively find the proportion of liabilities and equity in the sum of liabilities and equity. On the whole, the capital structure is relatively stable without major changes. Between 2015 and 2019, the ratio of non-current liabilities to current liabilities is higher because of the higher proportion of long-term debt held.

Vertical common-size analysis of income statement

Through Figure 4.2, we can more intuitively observe the vertical analysis of the income statement.

Figure 4.2 Vertical analysis of income statement (Operating expenses)



Source: own calculation

From Figure 4.2, operating expenses are mainly in four aspects: Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products and Interactive. Of the four categories, Media Networks accounted for the largest share of total operating expenses because of the high production costs of movies and TV shows.

We can intuitively observe the proportion of these four parts in operating expenses, with Media Networks and Parks and Resorts accounting for a relatively large proportion. As a whole, these four parts have not changed much from 2015 to 2019.

4.2 Financial ratios analysis

This chapter is the practical application of the theoretical part of financial ratio analysis in the second chapter. In this chapter, we compare the relationship between two or more items in the financial statements from 2015 to 2019 and calculate their ratio relationship, so as to reveal the trend of profitability, liquidity, operating capacity and solvency of enterprises, and analyze the financial status or operating results of enterprises. The main source of data for this chapter is the annual reports of The Walt Disney Company from 2015 to 2019.

4.2.1 Profitability ratios

Profitability is one of the most important business objectives of an enterprise and the foundation for its survival and development. There are two methods for assessing a company's profitability: margins and return on investment. In the table 4.10 we depict all the important data about calculating profitability.

Table 4.8 Data for calculating profitability ratios (2015-2019) (unit: USD million)

	2015	2016	2017	2018	2019
Operating income	14,681	15,721	14,775	17,175	18,737
Total revenues	52,465	55,632	55,137	59,434	69,570
Net income	8,852	9,790	9,366	13,066	11,584
COGS	28,364	29,993	30,306	32,726	42,018
Total assets	88,182	92,033	95,789	98,598	193,984
Total equity	48,655	47,323	45,004	52,832	93,889

Source: Annual reports of the Walt Disney company

Through the second chapter, we can calculate these profitability ratios according to formulas (2.3),(2.4),(2.5),(2.6) and (2.7). Through the calculation, we can obtain operating profit margin, net profit margin, total profit margin, return on capital and return on equity. The calculated results are shown in Table 4.9.

Table 4.9 Profitability ratios of Walt Disney company

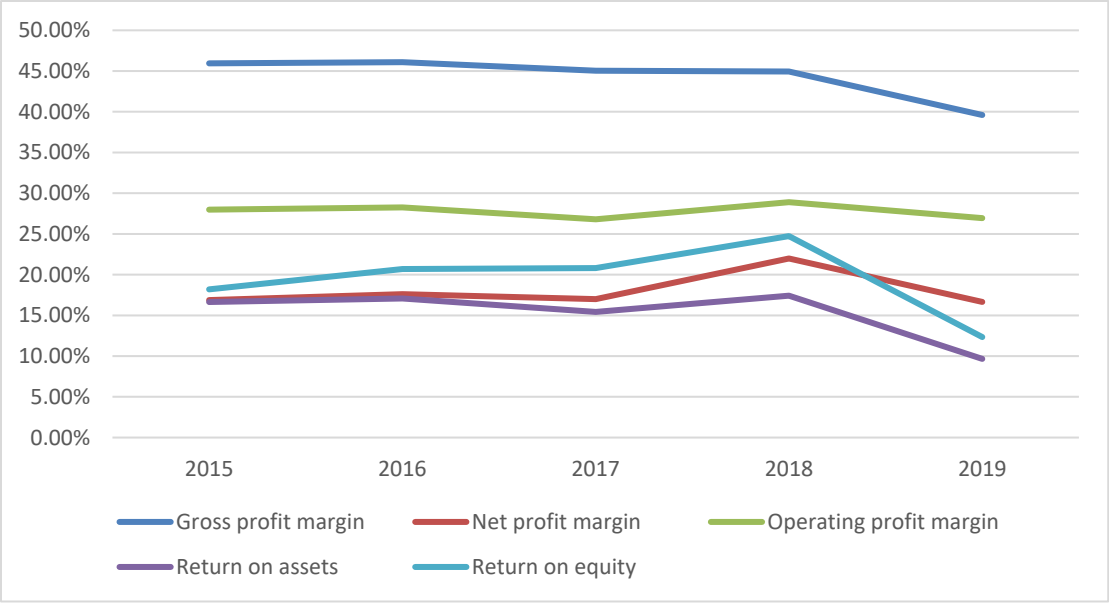
	2015	2016	2017	2018	2019
Gross profit margin	45.94%	46.09%	45.04%	44.94%	39.60%
Net profit margin	16.87%	17.60%	16.99%	21.98%	16.65%
operating profit margin	27.98%	28.26%	26.80%	28.90%	26.93%
Return on assets	16.65%	17.08%	15.42%	17.42%	9.66%
Return on equity	18.19%	20.69%	20.81%	24.73%	12.34%

Source: own calculation

Operating profit margin is the ratio of operating profit to revenue in a certain period of time. High operating profit margin indicates that the greater the development potential of the

enterprise, the stronger the market competitiveness, is a strong performance of profitability. Net profit margin is the profit margin after deducting all costs, expenses and corporate income tax. The higher the net profit margin, the better the economic benefit of the enterprise. Gross profit margin is the comprehensive result of sales revenue and product cost changes. When the economic situation changes, the product cost rises, and the product selling price is difficult to adjust in time, which is reflected in the decline of the gross profit margin.

Figure 4.3 Changes of profitability ratios



Source: own calculation

From Figure 4.3, we can observe that the operating profit margin, net profit margin and gross profit margin have all changed slightly in the past five years, but they all remain at a high level, which indicates that the company's products are competitive and have good profitability, and the future development is in a positive direction. From 2015 to 2019, the highest proportion of operating profit margin in the five years is 28.90% in 2018, the highest proportion of net profit margin in 2018 is 21.98%, and the highest proportion of gross profit margin in the five years is 46.09% in 2016.

The return on assets from 2015 to 2017 has not changed much, and the return on equity has shown an upward trend. They are all at a relatively high level. The highest return on assets was 17.42% in 2018, indicating that the company ’s management of economic resources is more effective and generates greater net income. The return on equity accounted for a larger proportion in five years. In 2018, it was 24.73%. The company's ability to convert equity

investment into profit is very strong. Combined with the above data, the best profitability is in 2018.

In addition, we can clearly find that all indicators in 2019 have declined, but this does not mean that the development of the company has been hindered, because the acquisition of TFCF, these declines are only short-term effects, which pave the way for the long-term development of the company.

4.2.2 Liquidity ratios

The company's liquidity can be seen in its ability to fulfill short-term obligations, and it is an important indicator of financial status. The main liquidity ratios are current ratio, quick ratio and cash ratio.

In the Table 4.10 we depict all the important data about calculating liquidity ratios.

Table 4.10 Data for calculating liquidity ratios (2015-2019) (unit: USD million)

	2015	2016	2017	2018	2019
Total current assets	16,758	16,966	15,889	16,825	28,124
Total current liabilities	16,334	16,842	19,595	17,860	31,341
Inventory	1,571	1,390	1,373	1,392	1,649
Cash and cash equivalents	4,269	4,610	4,017	4,150	5,418

Source: Annual reports of the Walt Disney company

Through the formulas (2.8), (2.9), (2.10) in Chapter 2, we can calculate the current ratio, quick ratio and cash ratio respectively. The calculated results are shown in Table 4.11.

Table 4.11 Liquidity ratios of Walt Disney company

	2015	2016	2017	2018	2019
Current ratio	102.60%	100.74%	81.09%	94.20%	89.74%
Quick ratio	92.98%	92.48%	74.08%	86.41%	84.47%
Cash ratio	26.14%	27.37%	20.50%	23.24%	17.29%

Source: own calculation

According to Table 4.11, we can observe that the current ratio in 2015 and 2016 is greater than 1, indicating that the company has the ability to repay its short-term liabilities with its

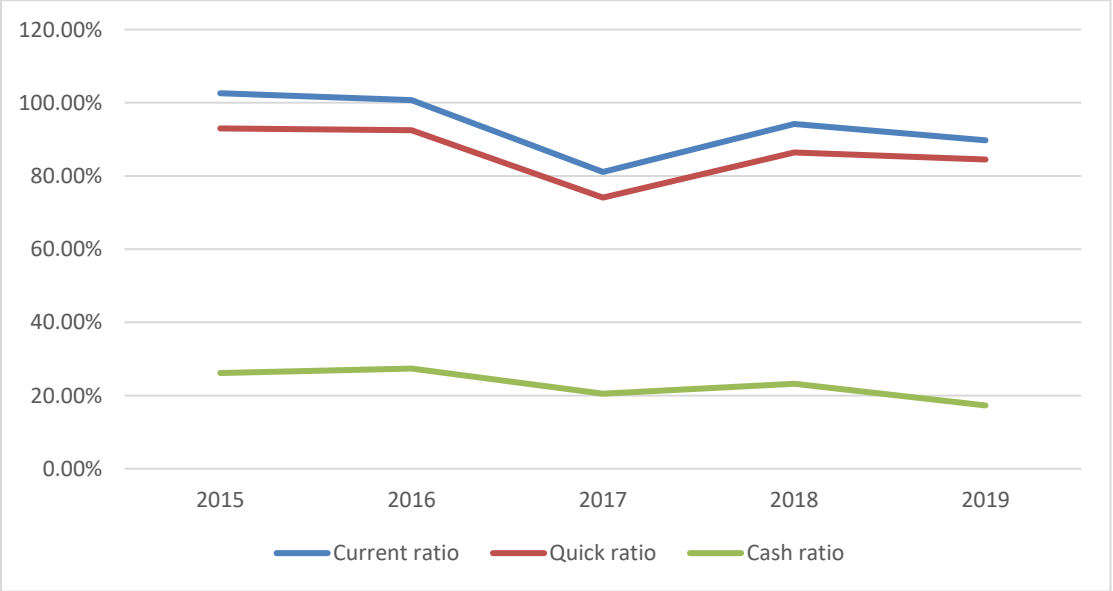
short-term assets. The highest current ratio was 102.60% in 2015, and the lowest was 81.09% in 2017. Although the current ratio from 2017 to 2019 was less than 1, the current ratio was above 80%, so the company's liquidity was relatively good.

The quick ratio, which calculates a firm's actual short-term solvency, is more conservative because it eliminates some liquid assets that might be harder to convert into cash. From 2015 to 2019, the ratio is less than 1, but it is around 1. The maximum quick ratio is 92.98% in 2015, and the minimum is 74.08% in 2017, indicating that the company has a good ability to repay current liabilities.

The conservative degree of cash ratio is higher than the above two ratios because the numerator only includes cash and cash equivalents. From 2015 to 2018, the cash ratio is above 20%. The highest cash ratio is 27.37% in 2016, and the lowest is 17.29% in 2019. Combined with the above data, it is easy to conclude that liquidity was better in 2015 than in 2019.

As can be seen from Figure 4.4, the overall trend of current ratio, quick ratio and cash ratio is roughly the same, in which the trend of current ratio and quick ratio is almost the same and more obvious than that of cash ratio. The trend of current ratio and quick ratio is on the decline from 2015 to 2017, on the rise in 2018, and on the decline in 2019.

Figure 4.4 Changes of liquidity ratios



Source: own calculation

Combined with the current ratio, quick ratio and cash ratio, in general, from 2015 to 2019, the Walt Disney company has strong liquidity and good financial condition.

4.2.3 Assets management ratios

The assets management ratios can be used to measure the efficiency of the company's asset management. They actually reflect the company's ability to obtain more operating income with limited assets, which are simply the operating capacity. In this part, we will mainly use working capital turnover, accounts receivable turnover and total assets turnover to analyze the operating capacity of the Walt Disney Company.

Table 4.12 Data for calculating assets management ratios (2015-2019) (unit: USD million)

	2015	2016	2017	2018	2019
Accounts receivable	8,019	9,065	8,633	9,334	15,481
Total revenues	52,465	55,632	55,137	59,434	69,570
Total assets	88,182	92,033	95,789	98,598	193,984
Net working capital	424	124	-3,706	-1,035	-3,217

Source: Annual reports of the Walt Disney company

According to the above data and combined with the second chapter, the formula of (2.15), (2.16), (2.17), we can calculate respectively from 2015 to 2019 years of business, the working capital turnover and accounts receivable turnover and total assets turnover.

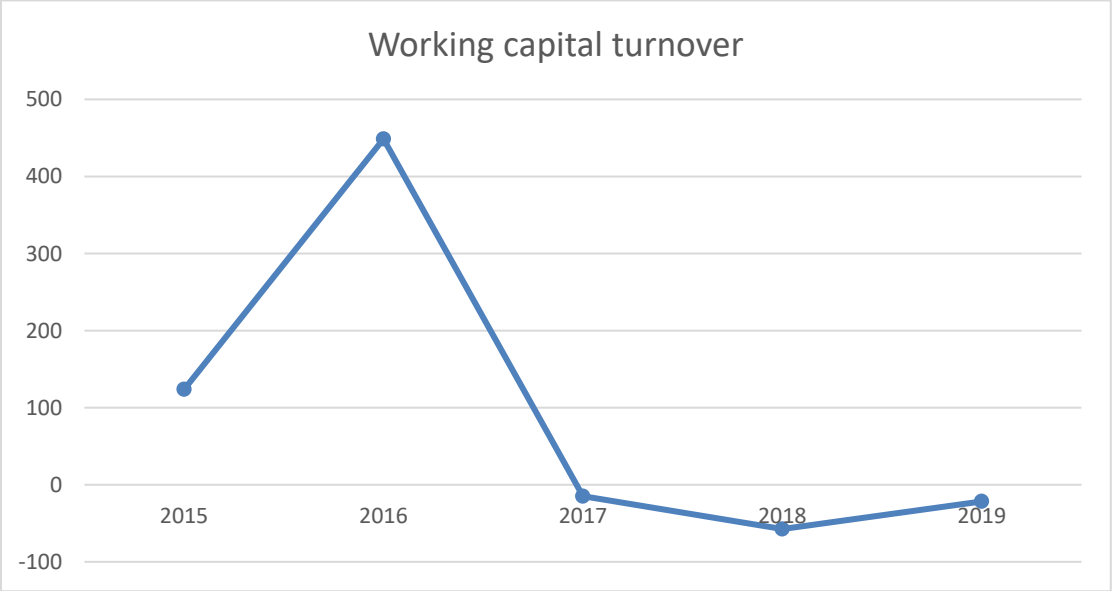
Table 4.13 Assets management ratios of Walt Disney company (in days)

	2015	2016	2017	2018	2019
Working capital turnover	123.74	448.65	-14.88	-57.42	-21.62
Accounts receivable turnover	6.54	6.14	6.39	6.37	4.49
Total assets turnover	0.59	0.60	0.58	0.60	0.36

Source: own calculation

In 2015 and 2019, working capital turnover in 2016, the largest is 448.65, the minimum of 2018 -57.42. The Accounts receivable turnover to 6.54 in 2015, the maximum minimum of 4.49 in 2019, Total assets turnover 2016 and 2018 was 0.60, maximum minimum of 0.36 in 2019.

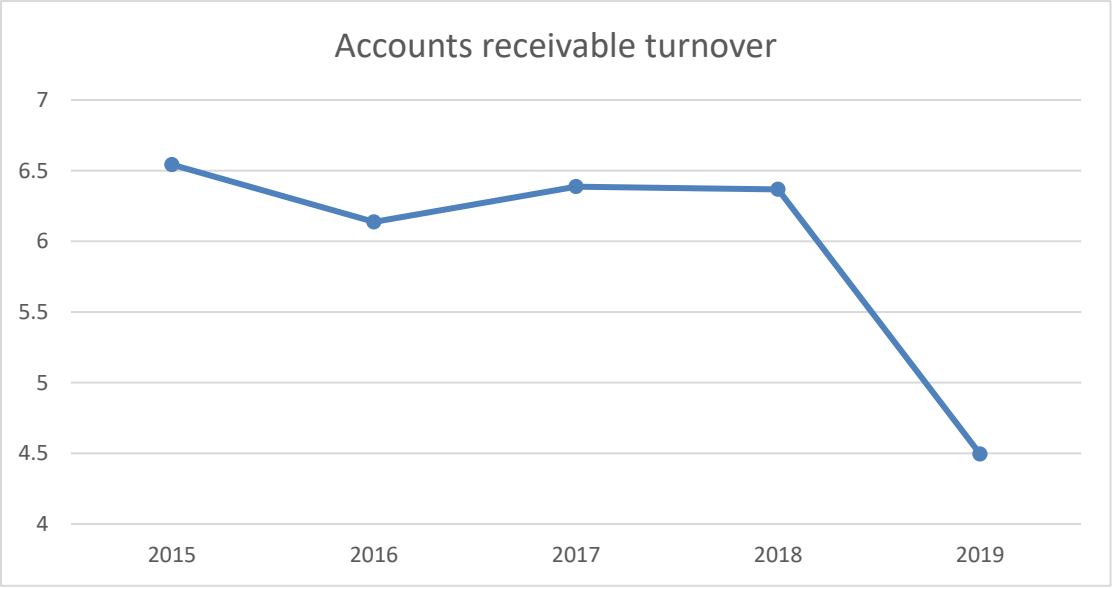
Figure 4.5 Working capital turnover



Source: own calculation

From Figure 4.5, we can see that the working capital turnover in 2015 and 2016 is positive, while the working capital turnover from 2017 to 2019 is negative. A positive net working capital indicates that current assets have enough short-term funds available to cover current liabilities as they mature. So, in 2015 and 2016 there is enough short-term funding to pay off the current liabilities that are coming due. In contrast, there is not enough short-term funding to pay current liabilities in 2017 to 2019.

Figure 4.6 Accounts receivable turnover

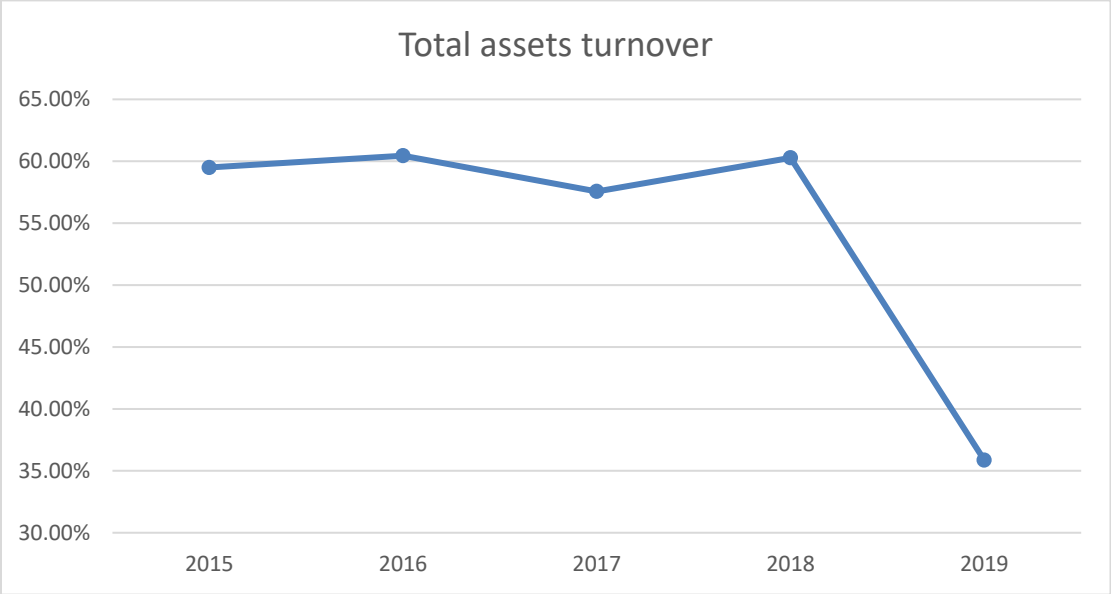


Source: own calculation

As can be seen from Figure 4.6, the changes in Accounts receivable turnover from 2015 to 2018 are not large, all of which are around 6, which shows that the turnover of accounts receivable is high, and the efficiency of enterprises in collecting credit from customers is high. In 2019, Accounts receivable turnover dropped rapidly to about 4, which shows that the number of accounts receivable turnover in 2019 becomes less, and the efficiency of the company's credit collection has decreased compared with before.

Next through Figure 4.7 observe the total assets turnover trend from 2015 to 2019.

Figure 4.7 Total assets turnover



Source: own calculation

We can see from Figure 4.7 that the trend of total assets turnover from 2015 to 2019 is similar to the trend of accounts receivable turnover in the same period. There is no significant difference in total asset turnover from 2015 to 2018, which are all around 60%, which shows Disney's active inventory management effectively shows that the company's product demand is high and it effectively transfers inventory during the business process. In 2019, total assets turnover suddenly dropped to about 36%, indicating that the company's inventory turnover rate has become lower and the efficiency of inventory management has become lower.

From the above calculations and analyses, we can simply draw a conclusion that Disney has a good operating capacity from 2015 to 2018, while the operating capacity in 2019 is weaker than before.

4.2.4 Solvency ratios

Solvency ratios refer to the ability of an enterprise to fulfill its long-term financial commitments. A company's solvency depends on how much debt it borrows as debt and its ability to repay it. In this part, we will mainly use debt ratio, financial leverage ratio and interest coverage ratio analyze the solvency of Walt Disney company. Here are some of the required data.

Table 4.14 Data for calculating solvency ratios (2015-2019) (unit: USD million)

	2015	2016	2017	2018	2019
Total debt	39,527	44,710	50,785	45,766	100,095
Total assets	88,182	92,033	95,789	98,598	193,984
Total equity	48,655	47,323	45,004	52,832	93,889
Operating income	14,681	15,721	14,775	17,175	18,737
Interest paid	314	395	466	631	1,142

Source: Annual reports of the Walt Disney company

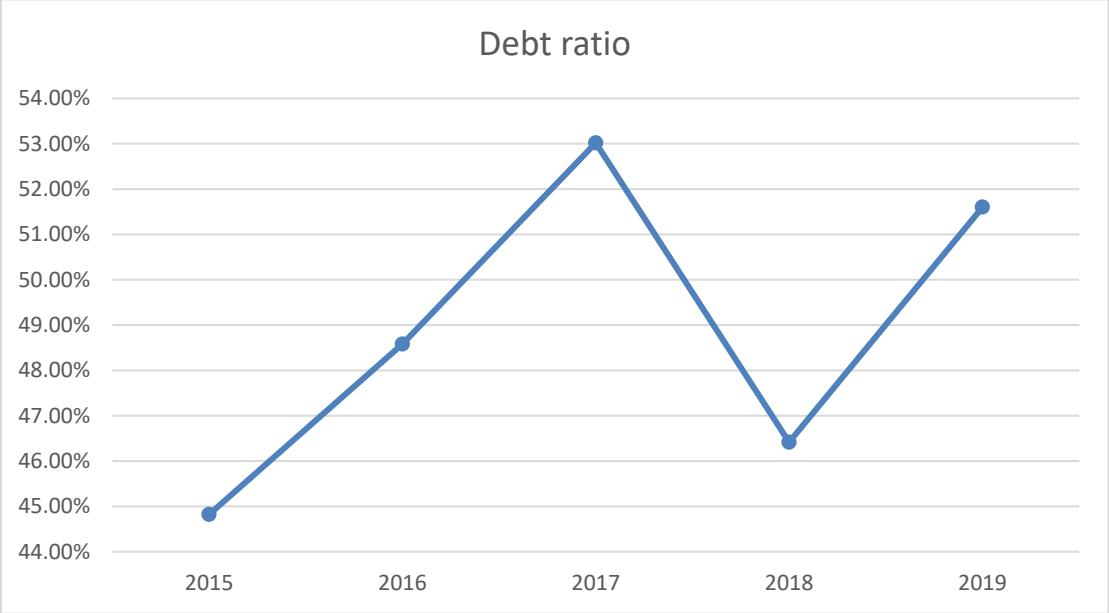
By applying the above data to the formula (2.11), (2.12) and (2.13) in the second chapter, we can calculate Walt Disney's Debt ratio, financial leverage ratio and the ratio of Interest coverage from 2015 to 2019, see Table 4.15.

Table 4.15 Solvency ratios of Walt Disney company

	2015	2016	2017	2018	2019
Debt ratio	44.82%	48.58%	53.02%	46.42%	51.60%
Financial leverage	1.81	1.94	2.13	1.87	2.07
Interest coverage	46.75	39.8	31.71	27.22	16.41

Source: own calculation

Figure 4.8 Debt ratio

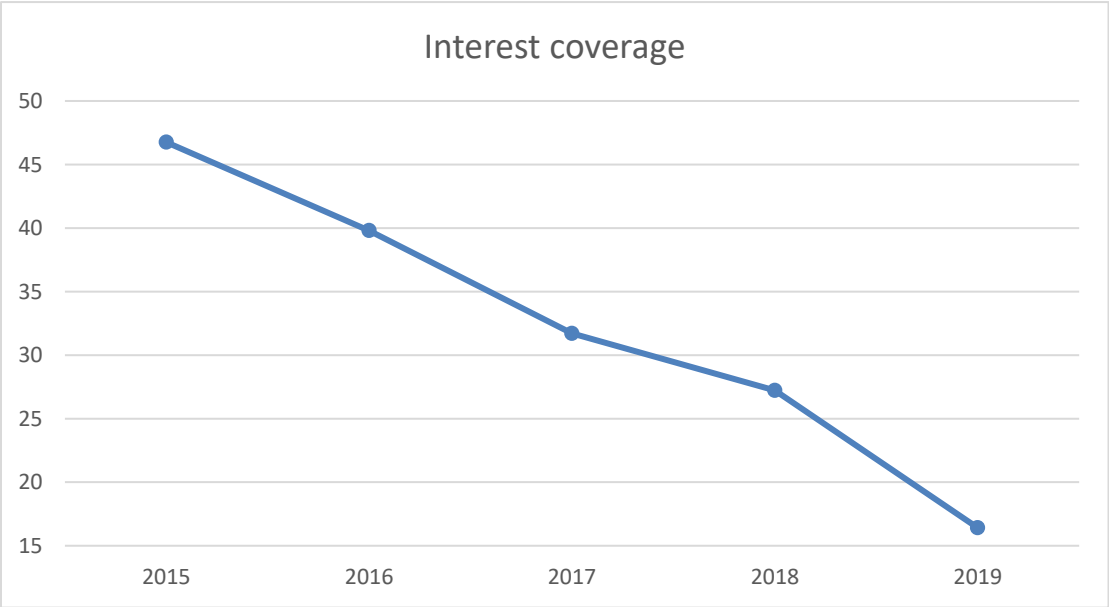


Source: own calculation

Observing Figure 4.8, it is not difficult to find that there is a rising trend from 2015 to 2017, and the increase is very large, gradually increasing from 44.82% in 2015 to 53.02% in 2017, which means that the company ’s capital structure has become high in debt, which means that the financial risk has also become higher. The debt ratio fell to 46.42% in 2018, rose to 51.60% in 2019. On the whole, the company's assets are sufficient to meet its debts.

The following is the Walt Disney company's interest coverage from 2015 to 2019.

Figure 4.9 Interest coverage



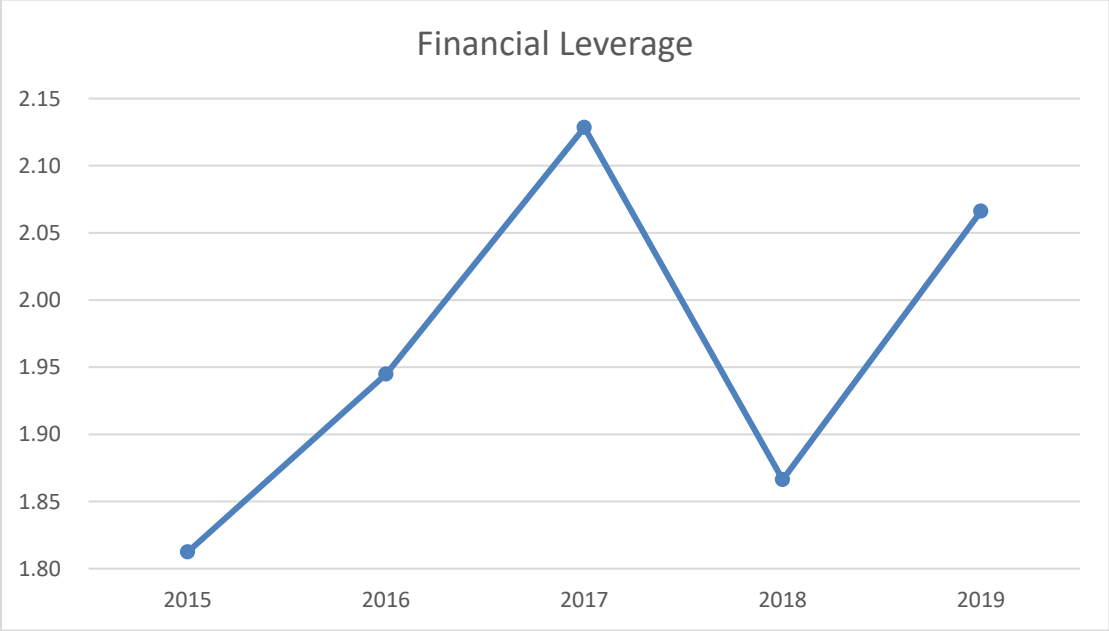
Source: own calculation

From Figure 4.9, we can intuitively see that from 2015 to 2019, the trend of interest coverage ratio gradually decreases, from the highest value of 46 in 2015 to the lowest value of 16 in 2019, which indicates that the number of debt repayment with its income decreases.

Even though the interest coverage ratio showed a gradual downward trend from 2015 to 2019, the lowest value of 16.41 compared with the competitor ViacomCBS Inc in the same industry is still a relatively good value because the average interest coverage ratio of ViacomCBS Inc from 2015 to 2019 is 5.7.

The following is the Walt Disney company's financial leverage from 2015 to 2019.

Figure 4.10 Financial leverage



Source: own calculation

From Figure 4.10, it can be seen that from 2015 to 2019, the Financial leverage of Walt Disney company is large and fluctuates greatly. The maximum value is 2.13 in 2017, and the minimum value is 1.81 in 2015. This indicates that the fixed cost of operating business is high, which means higher interest rate, leading to higher interest expense.

Compared to the industry's inherent average debt ratio, the Walt Disney company's debt ratio between 2015 and 2019 is between 44% and 54%, which is lower than the industry average debt ratio. The industry average debt ratio obtained through DiscoverCI is 235%. Disney company has less debt due to low financial risk and has high credibility.

Despite the high financial leverage ratio of Walt Disney, compared with the average financial leverage ratio of 2.34 obtained from DiscoverCI in the same industry, the maximum financial leverage ratio of Walt Disney in 2017 is still lower than the average financial leverage ratio of the same industry. From 2015 to 2019. This shows that Disney can use debt as part of its financing strategy.

4.3 Pyramidal decomposition of ROE

ROE is the most important indicator of whether a company is good or bad. The Dupont equation is an expression that divides return on equity into three parts: net profit margin, asset turnover and leverage. We measure the performance of a company, there are many indicators, each indicator has advantages and disadvantages, through Dupont analysis we can more intuitive and convenient observation of the impact of each indicator.

Table 4.16 Pyramidal decomposition of ROE (2015-2019) (unit: USD million)

	2015	2016	2017	2018	2019
Total assets	88,182	92,033	95,789	98,598	193,984
Total equity	48,655	47,323	45,004	52,832	93,889
Total revenues	52,465	55,632	55,137	59,434	69,570
EBIT	14,681	15,721	14,775	17,175	18,737
EBT	13,868	14,868	13,788	14,729	14,615
EAT	8,852	9,790	9,366	13,066	11,584

Source: own calculation

Table 4.17 Pyramidal decomposition of ROE (2015-2019)

	2015/2016	2016/2017	2017/2018	2018/2019
Absolute change ∆ ROE ^ abs	0.0249p.p.	0.0012p.p.	0.0392p.p.	-0.1239p.p.
Index of the change **I** (ROE)	1.137	1.006	1.188	0.499

Source: own calculation

According to the theoretical part of pyramid decomposition in chapter 2, we will mainly use

the logarithmic decomposition method. The first step of pyramid decomposition is to calculate the absolute change and change index of ROE between 2015 to 2019.

It can be observed from Table 4.17 that ROE has little change from 2015 to 2018 and remains relatively stable, while in 2019 ROE drops to -12.39%, which is a big drop compared with that of 2018.

Table 4.18 Pyramidal decomposition of ROE during 2015-2016

	a2015	a2016	Ia	△Xai	order
a1=EAT/EBT	0.64	0.66	1.03	0.60%	2
a2=EBT/EBIT	0.94	0.95	1.00	0.02%	5
a3=EBIT/Revenues	0.28	0.28	1.01	0.19%	4
a4=Revenues/Assets	0.59	0.60	1.02	0.31%	3
a5=Assets/Equity	1.81	1.94	1.07	1.37%	1
sum				2.49%	

Source: own calculation

According to formula (2.23), we can calculate the index change. From Table 4.18, we can see that the index of Assets/Equity contributes the most to ROE, and other indicators are all positive, indicating that the company has a good development from 2015 to 2016.

Table 4.19 Pyramidal decomposition of ROE during 2016-2017

	a2016	a2017	Ia	△Xai	order
a1=EAT/EBT	0.66	0.68	1.03	0.65%	4
a2=EBT/EBIT	0.95	0.93	0.99	-0.28%	5
a3=EBIT/Revenues	0.28	0.27	0.95	-1.10%	2
a4=Revenues/Assets	0.60	0.58	0.95	-1.02%	3
a5=Assets/Equity	1.94	2.13	1.09	1.87%	1
sum				0.12%	

Source: own calculation

From the above table, it can be seen that from 2016 to 2017, the index changes of each factor in the formula of net asset income and the impact of each indicator on the basic ratio. It is not difficult to find that from 2016 to 2017, the financial leverage ranks the highest in terms of the

impact on the basic ratio, while the negative asset turnover ratio indicates that Disney should improve its operating capacity, and the Interest burden has the least impact on the basic ratio.

Table 4.20 Pyramidal decomposition of ROE during 2017-2018

	a2017	a2018	Ia	△Xai	order
a1=EAT/EBT	0.68	0.89	1.31	6.06%	1
a2=EBT/EBIT	0.93	0.86	0.92	-1.92%	3
a3=EBIT/Revenues	0.27	0.29	1.08	1.71%	4
a4=Revenues/Assets	0.58	0.60	1.05	1.05%	5
a5=Assets/Equity	2.13	1.87	0.88	-2.99%	2
sum				3.92%	

Source: own calculation

From Table 4.20, we can clearly see that among the factors affecting the basic rate, Tax burden ranks highest, which means that the index has the greatest impact on the basic rate. Meanwhile, we can see that the asset turnover has the least impact on the basic ratio. In the 2017-2018 period, Walt Disney achieved a significant development, with the cumulative return on equity increasing by 3.92%.

Table 4.21 Pyramidal decomposition of ROE during 2018-2019

	a2018	a2019	Ia	△Xai	order
a1=EAT/EBT	0.89	0.79	0.89	-2.01%	2
a2=EBT/EBIT	0.86	0.78	0.91	-1.69%	4
a3=EBIT/Revenues	0.29	0.27	0.93	-1.26%	5
a4=Revenues/Assets	0.60	0.36	0.59	-9.25%	1
a5=Assets/Equity	1.87	2.07	1.11	1.81%	3
sum				-12.39%	

Source: own calculation

From 2018 to 2019, the cumulative return on equity of Walt Disney declined to a large extent, with a decline of -12.39%. The order of influencing factors also changed, with the largest impact on the basic ratio of assets turnover and the smallest impact on the basic ratio of EBIT margin.

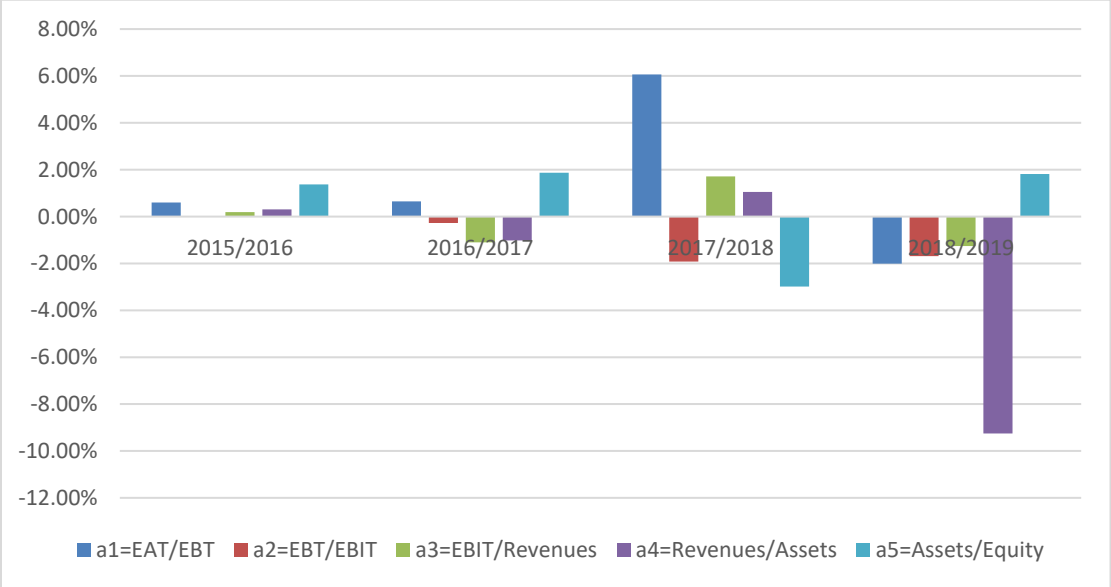
The biggest impact on ROE is assets turnover, which led to such a large decline in asset turnover rate mainly due to the acquisition of Twenty-First Century Fox, Inc by Walt Disney in 2019 and the acquisition of a controlling stake in Hulu. Among them, the value added in the acquisition of Twenty-First Century Fox, Inc 's film and TV costs and the merger of Hulu increased the cost. And the assets of these companies are attributed to Walt Disney, which has led to a decline in asset turnover.

Table 4.22 The level of influence factor during 2015-2019

	2015/2016	2016/2017	2017/2018	2018/2019
a1=EAT/EBT	0.60%	0.65%	6.06%	-2.01%
a2=EBT/EBIT	0.02%	-0.28%	-1.92%	-1.69%
a3=EBIT/Revenues	0.19%	-1.10%	1.71%	-1.26%
a4=Revenues/Assets	0.31%	-1.02%	1.05%	-9.25%
a5=Assets/Equity	1.37%	1.87%	-2.99%	1.81%

Source: own calculation

Figure 4.11 The level of influence factor during 2015-2019



Source: own calculation

After calculation, we can draw some conclusions from these results. It can be seen from table 4.24 and table 4.16 that, combined with the ranking of the influence degree of all factors from 2015 to 2019, financial leverage seems to be the most important component affecting ROE, but

its influence on ROE is sometimes positive and sometimes negative. Financial leverage in 2017-2018 had a negative impact on the base ratio, indicating that the company did not make good use of debt financing to bring additional benefits to the enterprise.

Interestingly, it can be seen that tax burden, interest burden, EBIT margin and assets turnover in 2018-2019 all have negative impacts on ROE, of which the maximum impact of asset turnover is -9.25%. At the same time, we can find that each index has a different influence on ROE each year, which also indicates that ROE is the result of multiple factors.

5. Conclusion

The goal of the thesis is to apply selected financial analysis methods in order to evaluate the financial position of the Walt Disney company between 2015 and 2019.

The first chapter introduces the basic structure of the thesis. The second chapter is financial statement and financial analysis theory. Chapter three analyzes the financial characteristics of Walt Disney company. Chapter four is a financial analysis based on Walt Disney's financial statements. Chapter five is the conclusion, which summarizes the financial analysis results of Disney company, and summarizes the main work of the thesis.

First of all, according to common-size analysis, we can find that the assets, equity, liabilities, operating income and operating expenses, cash flow in 2019 are all very different from the previous year. The reason is that Walt Disney acquired TFCF and obtained a controlling stake in Hulu, short-term changes are also ready for future long-term stable development. It can be found that non-current assets account for a large proportion of total assets, which means that assets are less liquid,, so companies may need to pay more attention to this aspect of asset risk.

Profitability ratio and solvency ratio are at a high level, indicating that Walt Disney company has strong profitability and solvency, and has a strong economic attraction. From the perspective of liquidity, the ratios all show a downward trend, and NWC is negative, and the current ratio is less than 1, indicating that the company's liquidity is weak. From the perspective of activity ratio, the accounts receivable turnover rate and inventory turnover rate are high, indicating the efficiency of collecting credit from customers is high, and indicating that the company's products are in great demand, and the company has effectively transferred inventory. However, the company had invested too much in accounts receivable and inventory assets to support sales, and the Walt Disney company needed to improve its short-term balance sheet to support sales. DuPont analysis shows little change in the indicators from 2015 to 2018, while the sharp decline in asset turnover in 2019 suggests that Disney needs to strengthen its asset turnover capacity.

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List of Abbreviations

ART - Account receivable turnover

NPM - Net profit margin

NWC-Net working capital

OPM - Operating profit margin

REV - Revenue

ROA - Return on assets

ROE - Return on equity

TAT - Total assets turnover

TFCF- Twenty-First Century Fox, Inc

EAT - Earning after taxes

EBIT - Earning before interest and taxes

EBT - Earning before taxes

GPM - Gross profit margin

IT - Inventory turnover

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List of annexes

Annex 1 Balance sheet of Walt Disney (Amounts in millions U.S. dollar)

	2015	2016	2017	2018	2019
ASSETS					
Current assets					
Cash and cash equivalents	4,269	4,610	4,017	4,150	5,418
Receivables	8,019	9,065	8,633	9,334	15,481
Inventories	1,571	1,390	1,373	1,392	1,649
Television costs and advances	1,170	1,208	1,278	1,314	4,597
Other current assets	1,729	693	588	635	979
Total current assets	16,758	16,966	15,889	16,825	28,124
Non current assets					
Film and television costs	6,183	6,339	7,481	7,888	22,810
Investments	2,643	4,280	3,202	2,899	3,224
Parks, resorts and other property	25,179	27,349	28,406	29,540	31,603
Intangible assets, net	7,172	6,949	6,995	6,812	23,215
Goodwill	27,826	27,810	31,426	31,269	80,293
Other assets	2,421	2,340	2,390	3,365	4,715
Total assets	88,182	92,033	95,789	98,598	193,984
Liabilities					
Current liabilities					
Accounts payable and other accrued liabilities	7,844	9,130	8,855	9,479	17,762
Current portion of borrowings	4,563	3,687	6,172	3,790	8,857
Unearned royalties and other advances	3,927	4,025	4,568	4,591	4,722
Total current liabilities	16,334	16,842	19,595	17,860	31,341
Borrowings	12,773	16,483	19,119	17,084	38,129
Deferred income taxes	4,051	3,679	4,480	3,109	7,902
Other long-term liabilities	6,369	7,706	6,443	6,590	13,760

Redeemable noncontrolling interests	-	-	1,148	1,123	8,963
Equity					
Common stock	35,122	35,859	36,248	36,779	53,907
Retained earnings	59,028	66,088	72,606	82,679	42,494
Accumulated other comprehensive loss	2,421	3,979	3,528	3,097	6,617
Treasury stock	47,204	54,703	64,011	67,588	907
Total Disney Shareholders' equity	44,525	43,265	41,315	48,773	88,877
Noncontrolling interests	4,130	4,058	3,689	4,059	5,012
Total equity	48,655	47,323	45,004	52,832	93,889
Total liabilities and equity	88,182	92,033	95,789	98,598	193,984

Annex 2 Income statement of Walt Disney (Amounts in millions U.S. dollar)

	2015	2016	2017	2018	2019
Revenues:					
Services	43,894	47,130	46,843	50,869	60,542
Products	8,571	8,502	8,294	8,565	9,028
Total revenues	52,465	55,632	55,137	59,434	69,570
Costs and expenses:					
Cost of services	23,191	24,653	25,320	27,528	36,450
Cost of products	5,173	5,340	4,986	5,198	5,568
Selling, general, administrative and other	8,523	8,754	8,176	8,860	11,541
Depreciation and amortization	2,354	2,527	2,782	3,011	4,160
Total costs and expenses	39,241	41,274	41,264	44,597	57,719
Restructuring and impairment charges	53	156	98	33	1,183
Other income, net	-	-	78	601	4,357
Interest expense, net	117	260	385	574	978
Equity in the income of investees	814	926	320	-102	-103
Income before income taxes	13,868	14,868	13,788	14,729	13,944
Income taxes	5,016	5,078	4,422	1,663	3,031
Income from discontinued operations	-	-	-	-	671
Net income	8,852	9,790	9,366	13,066	10,913
Less: Net income attributable to noncontrolling interests	470	399	386	468	472
Less: Net income from discontinued operations attributable to noncontrolling interests	-	-	-	-	58
Net income	8,382	9,391	8,980	12,598	11,054
Other comprehensive income/(loss)	-530	-1,656	426	359	-2,879
Comprehensive income	8,322	8,134	9,792	13,425	8,705

Net income attributable to noncontrolling interests	470	399	386	468	530
Other comprehensive loss attributable to noncontrolling interests	77	98	25	72	65
Comprehensive income attributable to Disney	7,929	7,833	9,431	13,029	8,240
Earnings per share attributable to Disney:					
Diluted	4.9	5.73	5.69	8.36	6.64
Basic	4.95	5.76	5.73	8.4	6.68
Weighted average number of common and common equivalent shares outstanding:					
Diluted	1,709	1,639	1,578	1,507	1,666
Basic	1,694	1,629	1,568	1,499	1,656

Annex 3 Cash flow statement of Walt Disney (Amounts in millions U.S. dollar)

	2015	2016	2017	2018	2019
OPERATING ACTIVITIES					
Net income	8,852	9,790	9,366	13,066	10,913
Depreciation and amortization	2,354	2,527	2,782	3,011	4,160
Gains on acquisitions and sales of investments	91	26	298	560	4,794
Deferred income taxes	-102	1214	334	-1,573	117
Equity in the income of investees	814	926	320	102	103
Cash distributions received from equity investees	752	799	788	775	754
Net change in film and television costs and advances	922	101	1075	523	542
Equity-based compensation	410	393	364	393	711
Other	628	674	503	441	206
Changes in operating assets and liabilities:					
Receivables	-211	-393	107	-720	52
Inventories	1	186	-5	-17	-223
Other assets	223	-443	-52	-927	932
Accounts payable and other accrued liabilities	-49	40	-368	235	191
Income taxes	354	-598	208	592	-6,599
Cash provided by operations	11,385	13,136	12,343	14,295	5,984
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	-4,265	-4,773	-3,623	-4,465	-4,876
Acquisitions	-	-850	-417	-1,581	-9,901
Other	20	-135	-71	710	-319
Cash used in investing activities	-4,245	-5,758	-4,111	-5,336	-15,096

FINANCING ACTIVITIES					
Commercial paper borrowings/(repayments), net	2,376	-920	1,247	-1,768	4,318
Borrowings	2,550	6,065	4,820	1,056	38,240
Reduction of borrowings	-2,221	-2,205	-2,364	-1,871	-38,881
Dividends	-3,063	-2,313	-2,445	-2,515	-2,895
Repurchases of common stock	-6,095	-7,499	-9,368	-3,577	-
Proceeds from exercise of stock options	329	259	276	210	318
Contributions from noncontrolling interest holders	1,012	-	17	399	737
Other	-689	-607	-1,142	-777	-2,301
Cash used in financing activities	-5,801	-7,220	-8,959	-8,843	-464
Impact of exchange rates on cash, cash equivalents and restricted cash	-302	-123	31	-25	-98
Total cash, cash equivalents and restricted cash	4,725	4,760	4,064	4,155	5,455
Supplemental disclosure of cash flow information:					
Interest paid	314	395	466	631	1,142
Income taxes paid	4,396	4,133	3,801	2,503	9,259